

Market Pricing Working Group Meeting #48



Notes of Meeting - FINAL

Date held:	Time held:	Location held:
March 6, 2008	9:00 a.m. to 12:30 p.m.	DoubleTree Hotel, Dixon Rd. Toronto, Ontario
Invited/Attended:	Company name:	Attendance Status: (A)ttended; (R)egrets; (S)ubstitute
Abdelnour, Francois	IVACO Rolling Mills	A
Bell, Brian	Ontario Power Generation	A
Bellevance, Erik	Hydro Quebec Energy Markets	A
Bellissimo, Vittoria	Ontario Power Authority	A
Berry, Scott	IESO	A
Brady, Sean	Ontario Power Authority	
Cary, Rob	Sithe & Cardinal Power	A
Chase, Maia	IESO	A
Erickson, Tracy	Brookfield Power	A (teleconference)
Hannan, Usman	IESO	A
Harwood, Shane	Shell Energy	A
Hassan, Fred	Electricity Research Associates	A
Hunt, Robert	Optimal Technologies	A
Jaipargas, Angeli	IESO	A
Kelly, Brian	TransCanada Energy	A
Kerr, Paul	Shell Energy	A
Leung, Linda	Ontario Power Generation	A
Lung, Gene	Direct Energy	A
MacKenzie, John	IESO	A
Matsugu, Darren	Ontario Ministry of Energy	A
Mei, Sam	AMPCO	A
Rivard, Brian (chair)	IESO	A
Robitaille, Dave	IESO	A
Savage, Jessica	IESO	A
Smith, Paul	Arcelor Mittal Dofasco	A
Wu, Lawrence	TEAM ltd.	A
Yang, Bun Li	E4	A
Scribe: John MacKenzie, IESO. Please report any corrections, additions or deletions to these notes to the following e-mail address: iesomarketpricingworkinggroup@ieso.ca		

All meeting material is available on the IESO web site at:
http://www.ieso.ca/imoweb/consult/mep_mp.asp

Item 1 - Administration

a) Review of Agenda

- No changes

b) Review of Notes from February 7, 2007 meeting (MPWG 47)

Members Questions, Comments and Discussion

- Correction requested to company name for one attendee.
- The following change requested and agreed to on page 8:
"Members ~~agreed with~~accepted the recommended changes to the status and priority of identified issues."

Next Steps

- IESO to revise meeting notes as agreed, and post notes as final.

c) Review of Action Items

John MacKenzie (IESO) led a discussion of the IESO responses to action items AI 47-1 and 47-3 and the recommendation to close these two action items.

Members Questions, Comments and Discussion

- With respect to AI 47-1, a generator asked when the IESO would be considering a market adequacy mechanism and whether it was an IESO resource constraint or industry policy constraint that was determining the timing of IESO consideration. The IESO responded that availability of IESO resources was the constraint and the timing of the IESO consideration of a market adequacy mechanism is not known.
- With respect to AI 47-3, an intertie trader asked whether the IESO reported on the reason for each administrative pricing event as part of the IESO corporate performance measure. The IESO committed to find out whether reasons are reported. Refer to action item AI 48-1.
- Members accepted the recommendation that AI 47-1 and 47-3 be closed.

d) Updates

Brian Rivard (IESO) provided the following updates:

- Issue# 9: Peak vs Average Pre-Dispatch Demand Forecast: due to the analysis complexity, the IESO is deferring presentation and discussion of analysis results until the May MPWG meeting. At that meeting, the IESO expects to present the efficiency, price impact and cost-benefit analyses, and a draft recommendation.

- Due to IESO staff resource constraints, the IESO proposed the following schedule of MPWG meetings for the remainder of 2008:
 - i. May 8th
 - ii. June 5th
 - iii. August 19th
 - iv. October 29th
 - v. December 2nd

Members Questions, Comments and Discussion

- An intertie trader requested that the IESO coordinate the MPWG meetings with the meetings of the Inter-Jurisdictional Trading Standing Committee in order to reduce stakeholder travel.
- A consumer noted that the Industrial Gas Users Association (IGUA) has its annual conference on May 7-9. The scheduled MPWG meeting on May 8th conflicts with that conference. He requested that the IESO consider changing the MPWG meeting date to avoid a conflict with the IGUA meeting.
- The members accepted the proposed revised schedule subject to consideration of changing the May meeting as requested by the consumer.

Item 2: Ontario Power Authority (OPA) Demand Response (DR) Programs¹

Sean Brady (OPA) made a presentation of numerical examples of the OPA DR programs and the 2007 experience with the DR1 program.

Members Questions, Comments and Discussion – DR1 Program

1. The OPA clarified that dispatchable loads in the IESO-administered markets (IAM) intending to be eligible for OPA DR1 program revenues for a given hour must remove their energy and operating reserve bids/offers from the IAM by two hours before the given hour. The OPA receives confirmation that a dispatchable load has removed energy and operating reserve bids/offers from the IAM
2. A generator and an intertie trader suggested that greater visibility and transparency of the DR1 interaction with the IAM was needed. It is important for market participants to know when competitive resources could be removed from the IAM. It was suggested that the appropriate market manual include the DR1 interaction.
3. The OPA also confirmed that DR1 participants are paid only on actual demand reduction performance.
4. The OPA asserted that the DR1 program is a voluntary program and intended to promote consumer learning and response within the industry. It is desirable to have as wide as possible learning.

¹ Information on OPA Demand response programs can be found on the OPA web site at the following link:
<http://www.powerauthority.on.ca/Page.asp?PageID=1212&SiteNodeID=147>

5. As demand reductions under the DR1 program are voluntary, the IESO cannot predict the DR1 response. The IESO is also not informed of any actual demand reductions under this program.
6. Over the long term, the OPA expects that consumer response to market price signals would mature to the point that there would be no need for DR programs such as DR1. The timing of such maturation is not known.
7. The OPA considered using shadow prices as trigger prices, but decided the pre-dispatch uniform price is more suitable, given that consumers pay a uniform price.

Members Questions, Comments and Discussion – DR2 Program

In response to member questions, the OPA provided the following points of clarification:

- The DR2 program is a contractual program where participants commit to shift consumption from peak hours to off-peak hours. Eligibility requirements include baseline consumption tests and 4-hour consumption drop tests.
- The OPA is considering a standard price to start the program and potentially move to a competitive bidding process to set price as the program evolves.
- The Integrated Power System Plan establishes a combined target of 566 MW for the DR1, DR2 and DR3 programs. The OPA has not yet determined the DR2 program contribution to the 566 MW target.
- DR2 participants would be required to provide verification of performance.

Members Questions, Comments and Discussion – DR3 Program

- In response to member questions, the OPA provided the following points of clarification:
 1. The DR3 program is an Ontario demand reduction program and is not offered to intertie traders to import supply MW as an alternative to a reduction in Ontario demand.
 2. The dispatch signal for DR3 will be domestic supply cushion. There will be a day-ahead warning and real-time dispatch signal from the IESO. The OPA will publish the rules for dispatch, before the summer of 2008.
 3. There will be contractual penalties if participants do not meet the 95% reliability requirement. There would also be less DR3 revenue for such a participant.
 4. DR3 reductions will be on a 4-hour basis, starting nominally at the top of the hour.
 5. The IESO was unable to answer (i) whether or not the DR3 day-ahead warnings will be published and (ii) whether or not IESO demand forecasts will be adjusted to reflect expected DR3 response to prevent over-commitment of supply. Refer to action item AI 48-2.
 6. The IESO agreed that its role and actions in facilitating the implementation of DR3 needs to be transparent. The IESO also agreed that consideration of market economic efficiencies should be a consideration in its DR3 dispatch decisions.
 7. While contract certainty is important, the OPA recognizes that the DR3 program may evolve over time and may eventually be discontinued.
 8. The OPA will be targeting for 100 hours of DR3 reductions per participant, but the 100 hours is only a target, not a requirement.

- A generator requested that the IESO notify the MPWG when DR3 program rules are published. Refer to action item AI 48-3.
- A generator expressed concern that the IESO will apparently be dispatching or directing the DR3 demand reductions according to non-economic principles that are not reflected in the market rules or manuals. This is a significant departure from the IESO's dispatch or resources for reliability or economics and needs to be made fully transparent. The IESO was asked to provide details of how it would document its processes (as opposed to those of the OPA), and how its process development would be stakeholdered. Refer to action item 48-4.
- A consumer noted that the challenge for industrial consumers to participate in DR3 will be meeting the 1600 hours of annual availability requirement.

Members Questions, Comments and Discussion – DR1 2007 Performance

- A generator requested that the IESO consider developing criteria for integrating expected DR1 reduction into the IESO market demand forecasts. Refer to action item 48-5.
- A consumer noted that his sector is also interested in efficiently integrating DR1 into the market, as consumers pay for OPA programs.

Item 3: Issue #39 - Inter-Market Trading of Operating Reserve

Usman Hannan (IESO) made a presentation and led a discussion intended to be an introduction to this issue and to outline the proposed scope and schedule of the study.

Members Questions, Comments and Discussion

- A retailer suggested that the IESO include an assessment of the impact of inter-market operating reserve trade on Ontario financial transmission rights market.
- A generator suggested the IESO also review U.S. Department of Energy materials for data on inter-market trade. The generator also noted that he believed there is inter-market trading of operating reserve within the Western Electricity Coordinating Council (WECC). The IESO confirmed that it was investigating such trade within WECC.
- In response to member questions, the IESO made the following clarifications:
 1. Operating reserve that is provided by an import would be activated on the same timelines as domestic operating reserve i.e. inter-hour. However, the IESO had not yet activated operating reserve provided by an import.
 2. The only physical limits to importing operating reserve are (i) the physical capability of the intertie transmission lines and (ii) the operating reserve requirement.
 3. The IESO believes that it is participant issues that result in only 30-minute operating reserve being offered through imports.
 4. One of the outputs of this study will be identification of where and to what extent there is inter-market trading of operating reserve in North America.
 5. The IESO committed to provide examples as to how imports to Ontario have offered operating reserve. Refer to action item AI 48-6.

Item 4: Other Business

a) Members Issues

- A generator suggested that issue #7 (Imports and Exports setting Real-Time price) should be considered in light of the impending retirement of Ontario coal-fired generation. He asserted that the coal retirement would result in a gap in the real-time supply curve between baseload nuclear and hydroelectric generation and far more expensive natural gas and energy limited hydroelectric generation. Allowing imports and exports to set real-time price could fill that gap in the real-time supply curve.
- A member suggested that issues before the MPWG should be re-considered in light of the potential outcomes of the Integrated Power System Plan currently before the OEB.
- The IESO requested that both members document and elaborate their concerns in an e-mail to the IESO.

b) Review of January 2008 Pricing Events

Angeli Jaipargas presented a summary of pricing events for January 2008.

Members Questions, Comments and Discussion

None.

c) Review of Issues Tracking and Forward Agenda

John MacKenzie (IESO) led a discussion of the updated issues tracking document and the MPWG forward agenda.

Members Questions, Comments and Discussion

- It was agreed that the IESO would only provide updates to the issues tracking document when there are significant changes to the document.

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 34-5	3 Nov 06	IESO to report back at December MPWG meeting on peak vs average efficiencies and price impact analysis.	Status: Open Target Completion Date: May 2008	
AI 36-2	1 Mar 08	Do other electricity market and system operators use peak or average demand forecasts?. Information on the demand forecasts used for price determination is also required.	Status: Open Target Completion Date: May 2008	
AI 44-2	23 Aug 07	IESO to provide the following information regarding administrative pricing: refresher on current market rules and practices, data and summary of administrative pricing events and causes, IESO work programs in place to address the causes.	Status: open. Target Completion Date: Q4 of 2008.	IESO has instituted the reporting of administrative pricing events as part of the Monthly Pricing Events reporting.
AI 44-5	23 Aug 07	IESO to provide the working group with the scope of the LMP study being conducted under stakeholder engagement plan SE-25.	Status: open. Target Completion Date: May 2008.	

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 45-4	29 Oct 08	<p>IESO to report back to the MPWG on the following with respect to OPA DR programs:</p> <ol style="list-style-type: none"> Should expected DR3 programs activations were used to consider generator and transmission outages? What planning and real-time information regarding these programs can be made public? Can the transparency of the triggering of these programs be improved? Define the rules for open and closed notification for the DR3 program. Are market rules needed to authorize the IESO role in the OPA DR programs? Simple numerical examples of DR2 and DR3 response. 	<p>Status: #1-5 open. #6 closed Target Completion Date: To be determined</p>	For closure of #6, refer to discussion under agenda item 2.
AI 47-1	7 Feb 08	IESO to provide MPWG with the specific corporate performance measure related to administrative pricing.	Closed.	Refer to discussion under agenda item 1(c).
AI 47-2	7 Feb 08	IESO to investigate feasibility of providing stakeholders with pre-dispatch and forecast real-time domestic supply cushion.	Open Target Completion Date:	
AI 47-3	7 Feb 08	IESO to provide MPWG with the specific corporate performance measure related to administrative pricing.	Closed.	Refer to discussion under agenda item 1(c).
AI 47-4	7 Feb 08	IESO to investigate the feasibility of reporting activations of OPA demand response programs as part of the monthly pricing event reporting.	Open Target completion date:	

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 48-1	6 Mar 08	IESO to confirm whether reasons for administrative pricing events are reported as part of the IESO corporate performance measure reporting.	Open. Target completion date: May 2008	Refer to discussion under agenda item 1(c).
AI 48-2	6 Mar 08	IESO to determine (i) whether or not the DR3 day-ahead warnings will be published and (ii) whether or not IESO demand forecasts will be adjusted to reflect expected DR3 response to prevent over-commitment of supply	Open. Target completion date: To be determined	Refer to discussion under agenda item 2.
AI 48-3	6 Mar 08	IESO to notify MPWG when OPA DR3 program rules are published.	Open. Target completion date: To be determined	Refer to discussion under agenda item 2.
AI 48-4	6 Mar 08	The IESO to provide details of how it would document its processes (as opposed to those of the OPA), and how its process development would be stakeholdered."	Open. Target completion date: To be determined	Refer to discussion under agenda item 2.
AI 48-5	6 Mar 08	IESO consider developing criteria for integrating expected DR1 reduction into the IESO market demand forecasts	Open. Target completion date: To be determined	Refer to discussion under agenda item 2.
AI 48-6	6 Mar 08	IESO to provide examples as to how imports have offered operating reserve.	Open. Target completion date: To be determined	Refer to discussion under agenda item 3.