

Market Pricing Working Group Meeting #53



Notes of Meeting – DRAFT

Date held: December 2, 2008	Time held: 9:00 a.m. to 1:30 p.m.	Location held: Toronto Congress Centre Dixon Rd., Toronto, Ontario
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Invited/Attended:	Company name:	Attendance Status: (A)ttended; (R)egrets; (S)ubstitute
Bell, Brian	Ontario Power Generation	A
Burke, Paul	Ontario Power Generation	A
Chase, Maia	IESO	A
Dumais, Dan	Xstrata Nickel	A
Finkbeiner, Darren	IESO	A
Fleming, Ted	Ontario Power Authority	A
Forsyth, Dave	Gerdau Ameristeel	A
Greenberg, Jessica	IESO	A
Hassan, Fred	ERA/PWU	A
Hunt, Robert	Hunt Management Services	A
Kelly, Brian	TransCanada Energy	A
Kerr, Paul	Shell Energy	A
Lam, Tim	IESO	A
Loughren, Chris	Bruce Power	A
MacKenzie, John	IESO	A
Maria, Gamal	IESO	A
Matsugu, Darren	IESO	A
Olmstead, Derek	IESO	A
Peterson, David	Ontario Power Generation	A
Rivard, Brian (chair)	IESO	A
Singh, Diljeet	IESO	A
Wang, Maggie	Ontario Power Authority	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 to the agenda

b) **Review of Notes from MPWG Meeting #52, October 29th, 2008**

Refer to document published on IESO web site at the following link:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Notes-M52-DRAFT.pdf

Members Questions, Comments and Discussion

None

Next Steps

IESO to post notes as final.

c) **Review of Action Items**

John MacKenzie (IESO) presented the IESO recommendation that action items 47-2 and 49-1 be closed. Refer to document published on IESO web site at the following link:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Action_Items.pdf

Members Questions, Comments and Discussion

1. A generator asked whether the IESO calculation of published supply cushion incorporated the impact of facility derates and outages as recently recommended by the Market Surveillance Panel (MSP). The IESO advised that the calculation of the IESO published supply cushions is not consistent with the MSP recommendation, but that the IESO is investigating the changes required to align the calculation with the MSP recommended calculation.
2. Members accepted the IESO recommendations.

Next Steps

IESO to close action items 47-2 and 49-1.

d) **Updates**

Brian Rivard (IESO) provided updates on the following issues and initiatives:

- Enhanced Day-Ahead Commitment: updated draft design document and presentation materials will soon be published. Version 1.0 of the design document is due to be published in February 2009. This would initiate the development of market rules, which would be expected to be approved by the IESO Board in June 2009. The IESO expects to select a software vendor by the end of August and to complete user acceptance testing of the software by November 2010.

- The IESO is continuing to study the Energy Forward Market.

Members Questions, Comments and Discussion

1. With respect to the EDAC version 1.0 design document, a generator asked whether there would be a period of time for stakeholder review and comment. The IESO advised that stakeholders are participating in the development process on an ongoing basis through technical support groups.

Item 2: Issue #9: Peak vs. Average Pre-Dispatch Demand Forecast

Brian Rivard (IESO) led a discussion of the proposed decision criteria options and their application to the peak versus average issue. Refer to documents published on IESO web site at the following links:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Item2-Presentation.pdf
http://www.ieso.ca/imoweb/pubs/consult/se77/se77-20081127-IESO_Decision_Criterion.pdf
http://www.ieso.ca/imoweb/pubs/consult/se77/se77-20081127-IESO_Response_to_Comments.pdf

Members Questions, Comments and Discussion

1. The level and nature of analysis required to support a decision was discussed. Members suggested that a “future looking analysis” was necessary. The IESO agreed that projection of future impacts is needed, but the IESO has limited analytical capability in that regard. The IESO also noted that, consistent with the cost-benefit analysis paper written by Dr. Trebilcock¹, (i) direct impacts of the change under analysis were important and (ii) secondary impacts should be considered but that the onus should be on the stakeholder community to identify those secondary impacts and to justify the consideration to be given.
2. Members also suggested that follow-up reviews of changes should be considered to determine if the expected changes and improvements actually materialized. However it was noted that it may be very difficult to isolate and identify the impacts of a single change in light of other industry developments that have occurred in the interim.
3. A generator suggested that another consideration be the long term viability of the existing market conditions. He asserted that the existing market is not providing sufficient revenues to support supply investment, as witnessed by the need for the Ontario Power Authority supply contracts. Correcting the existing shortfalls should be part of the decision criteria.
4. Other techniques and criteria suggested by members included:
 - a. Scenario analysis incorporating changes to key parameters to determine triggers for implementation;

¹ Dr. Trebilcock’s paper and presentation can be found on the IESO web site at the following links:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-CRA-Overview-of-Cost-Benefit-Analysis.pdf
http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-Overview-of-Cost-Benefit-Analysis.pdf

- b. More transparent citing of political direction when such direction is the reason for a decision.
5. An intertie trader suggested that any weighting of consumer and supplier impacts would mean that detailed analysis was not relevant: decisions would be made at a high level consistent with the weighting. He strongly supported no weighting.
6. A generator suggested that benefits to publicly owned generation should be recognized as ultimately benefitting Ontario consumers.
7. A member questioned whether the IESO analysis and decision criteria options were consistent with government policy. For example, the government has stated that its policy is that the price of electricity reflects the cost of supply. Are the IESO analysis and decision criteria options consistent with that policy?
8. The IESO maintained that the goal of the decision criteria exercise is for the IESO to have a transparent and understood decision making process with recourse for stakeholders to appeal IESO decisions to the Ontario Energy Board.

Item 3: Issue #13 – Control Action Operating Reserve

Diljeet Singh (IESO) led a discussion regarding the Control Action Operating Reserve (CAOR) issue, specifically:

- stakeholder feedback and IESO response to the CAOR issue paper and options presented at MPWG meeting 52; and
- a draft work plan.

Refer to documents published on IESO web site at the following links:

[http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-CAOR Stakeholder Comments and IESO Response.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-CAOR_Stakeholder_Comments_and_IESO_Response.pdf)

[http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-CAOR Work Plan-v1_0.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-CAOR_Work_Plan-v1_0.pdf)

Members Questions, Comments and Discussion

1. A generator suggested that:
 - (i) the standby prices for demand response programs may be a better proxy for CAOR pricing, than the demand response activation prices;
 - (ii) the IESO consider using data from 2007 for its analysis rather than 2008 as 2007 was a more normal “freshet” year.
2. An intertie trader expressed concern that the existing CAOR price structure was resulting in a cap on operating reserve market offer prices.
3. In response to a question as to the criteria to be used by the IESO to decide what, if any, changes would be made to CAOR pricing and structure, the IESO responded that it expects that the same criteria as that used to decide on the peak versus average issue.
4. In response to a question regarding the impact of changes to the operating reserve requirement, it was noted that changes to the operating reserve requirement witnessed today were the result of power system configuration and/or outage conditions, and that the

frequency of such changes was expected to be unchanged going forward. The IESO noted that permanent changes to the operating reserve requirements could be a factor that would influence the analysis.

5. An industrial consumer asked why the societal costs of CAOR were being investigated. The IESO responded that the societal cost of using CAOR was important as there is a real cost to stakeholders when CAOR is implemented e.g. voltage reductions, curtailed exports.
6. A generator made the following points:
 - Market impact analysis should include price, efficiency and stakeholder impacts;
 - CAOR was introduced to address certain situations where counter-intuitive market prices were occurring;
 - Reliability impact analysis should be included;
 - The nature of the market efficiency impacts to be assessed is not clear.The IESO acknowledged that further elaboration on the market efficiency impacts is necessary.
7. Another generator noted that the recent FERC order on competition included direction on “scarcity pricing” that may be relevant to this issue.
8. Members questioned why local distribution companies (LDCs) were not allowed to ‘offer’ voltage reductions into the market. Prior to market commencement, LDCs frequently cut voltage as a means of ‘peak shaving’. The IESO undertook to determine why LDCs are not allowed to do so now (refer to action item AI 53-1).

Item 4: Issue #7: Intertie Transaction Setting Real-Time Price

Darren Matsugu (IESO) and Paul Burke (OPG) made presentations on the potential implications of the Western Climate Initiative (WCI) and the provincial government ‘off-coal’ program on this issue. Refer to documents published on IESO web site at the following links:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Interties_Setting_Price.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Presentation-OPG.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-WCI.pdf

Members Questions, Comments and Discussion

1. The IESO noted that are many options to consider for this issue, including:
 - a. Allow only scheduled intertie transactions to set real-time price;
 - b. Allow all offered intertie transactions to set real-time price;
 - c. 15 minute dispatch and pricing for intertie transactions;
 - d. Nodal pricing for intertie transactions;
 - e. Eliminated the intertie offer guarantee.
2. An industrial consumer noted that there did not appear to be a clear statement of a ‘problem’ with real-time pricing, but rather there was statement of a ‘solution’ (i.e. allowing intertie transactions to set real-time price). The IESO stated that the problem was that real-time market prices may not be truly reflective of the costs of supply, resulting in inefficient market responses to prices. Other members also suggested that the problem was the

differences between pre-dispatch and real-time prices caused by not allowing intertie transactions to set real-time price were resulting in inefficient market responses. The IESO undertook to define the 'problem' for this issue (refer to action item AI 53-2).

3. During the OPG presentation, OPG suggested the real issue was that marginal resources should set the real-time price and that that is not happening as intertie transactions are often the marginal resource in real-time. OPG also suggested that while this may not be a material problem right now, in the future with the retirement of coal-fired generation, the problem may become significant.
4. A member asked whether the OPG modelling could project the change in market prices resulting from the government 'off-coal' program. OPG declined to share that information stating that such data was not relevant to the issue before the MPWG.

Item 5: Commissioning Generation Practices

Jessica Greenberg (IESO) made a presentation on the existing practices used by the IESO and market participants when commissioning generation facilities. Refer to the documents published on the IESO public web site at the following locations:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Commissioning_Generation.pdf

Members Questions, Comments and Discussion

1. The following points were clarified:
 - a. There are no 'deadbands' for self-scheduling commissioning generators meeting their submitted schedules.
 - b. Commissioning generation capacity is reported in IESO system status reports as installed capacity, but there is no reporting of the actual capability.
 - c. Capability is the registered MW capacity minus any derates. If the generator does not advise the IESO of a derate, that may be non-compliance.
2. A generator stated that more transparent information (and not necessarily confidential information) regarding commissioning generation is needed as the activities of a large commissioning generation facility can have significant impact on market pricing.
3. Another generator stated that commissioning is a very dynamic activity and plans can change very quickly. A forecast of what a commissioning generation facility is expected to be doing is very unreliable when predicting market conditions.
4. The IESO noted that the uncertainty associated with commissioning generation is not different than other market uncertainties. If generators all agreed that more information on commissioning plans be made public, the IESO would support such a move. The IESO agreed to examine whether any changes to current reporting were warranted.

Item 6: 2009 Market Pricing Working Group Priorities

John MacKenzie (IESO) led a discussion of the proposed 2009 priorities for MPWG. Refer to the document published on the IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Proposed_2009_MPWG_Priorities.pdf

Members Questions, Comments and Discussion

1. As noted above under agenda item 4, industrial consumers re-asserted that there is a need for a clear problem statement for issue #7- Intertie Transaction Setting Real-Time Price (refer to action item 53-2).
2. A generator suggested that the scoring of issue #7 is too low. On the basis of the presentation and discussion under agenda item4, higher scores should be assigned to market efficiency and sustainability impacts.
3. In general, members did not oppose that the following issues be the 2009 priorities for MPWG:
 - a. More efficient uniform price
 - b. Issue#9 - Peak versus Average Demand forecast in pre-Dispatch
 - c. Issue #13 - Control Action Operating Reserve
 - d. Issue #7 - Intertie Transactions Setting Real-Time Price

Item 9: Other Business

a) **Members Issues**

- None identified.

b) **Operational Issues – Surplus Baseload Generation**

Chris Loughren (Bruce Power) and Jessica Greenberg (IESO) made presentations on the Surplus Baseload Generation (SBG) issue. Refer to the documents published on the IESO public web site at the following locations:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Presentation-SBG-Bruce_Power.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-SBG-Presentation-IESO.pdf

Members Questions, Comments and Discussion

1. Members questioned whether the nuclear generation issues were “needs” or “wants”. Both the IESO and Bruce Power agreed that nuclear generation has limited manoeuvring capability. The IESO stated that it treats the nuclear manoeuvring issue no differently than other generation facilities with operational limitations.
2. SBG events cannot always be predicted, as they can result from real-time occurrences such as export failures.

3. SBG events are transitory.
4. The IESO will consider whether opening the bid/offer windows when an SBG event occurs will help.
5. The IESO suggested that there are many issues with respect to having wind-powered generation manoeuvre to address SBG events:
 - a. Visibility and IESO authority – many wind farms are embedded and not under dispatch authority of IESO;
 - b. Vagaries of the wind itself.
6. The IESO will be publishing a stakeholder engagement plan in the near future to examine the SBG issue. Consideration will be given to the Bruce Power suggestions to address SBG events.

c) Review of October 2008 Pricing Events

Derek Olmstead (IESO) presented a summary of pricing events for October 2008.

Refer to document published on IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081202-Presentation-October_2008_Pricing_Events.pdf

Members Questions, Comments and Discussion

1. The IESO noted that it will be reporting the interval-to-interval price volatility as measured against the past two years.

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
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.	Open. Target Completion Date: Q2 of 2009.	
AI 47-2	7 Feb 08	IESO to investigate feasibility of providing stakeholders with pre-dispatch and forecast real-time domestic supply cushion.	Closed	Refer to agenda item 1(c).
AI 49-1	16 May 08	IESO to determine what parts of the service level agreement between the IESO and OPA related to DR 3 program could be made public.	Closed	Refer to agenda item 1(c).
AI 51-1	19 Aug 08	In the spring of 2009, the Working Group to review: <ul style="list-style-type: none"> • whether OPA DR program transparency and reporting meets stakeholder needs; and • impact of OPA DR3 program on operating reserve markets. 	Open Target completion date: Q2 2009	
AI 53-1	2 Dec 08	IESO to determine why local distribution companies are not allowed to offer voltage reductions into the market as a source of operating reserve.	Open Target completion date – unknown	Refer to agenda item 3.
AI 53-2	2 Dec 08	For issue #7 (Intertie Transactions Setting Real-Time Price) the IESO is to re-frame the issue in terms of the ‘problem’ rather than an assumed solution.	Open Target completion date – unknown	Refer to agenda item 4.