

More Efficient Uniform Price (SE-79)

Darren Matsugu, IESO
Market Pricing Working Group
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- Review of background.
- Clarify the scope and purpose of the study.
- Provide examples the IESO has identified as potential areas of efficiency improvement.
- Solicit input and feedback to key questions in developing the framework for the study.
- Present the anticipated “next steps”.

- Discussions about the Day-Ahead Market deepened everyone's appreciation of the challenges for market evolution given the current unconstrained price-setting methodology used in the real-time market.
 - View that UDAM based on uniform price design would have exaggerated inefficiencies that currently exist in real-time.
- IESO, with the broad support of stakeholders, committed to work with participants and Stakeholder Advisory Committee to review the current real time pricing model.
- The IESO is preparing for a review of the “More Efficient Uniform Price” initiative. The *2009 IESO Business Plan* identifies this as high priority.

- A number of existing MPWG issues have been placed on hold or to be revisited as part of MEUP, including but not exclusively:
 - Intertie Transactions Setting Real-Time Price
 - Pricing Physical Constraints
 - Integration of Market and Regulated Prices
 - LMP for Intertie Transactions
 - Historical Analysis of Nodal Pricing

- This study is not an evaluation of the merits of a uniform price regime, relative to a market based locational marginal prices.
- A number of issues arise from differences between the physical scheduling of resources and the market schedule used to determine prices.
- Given the continued existence of a uniform price, what areas of inefficiency can be resolved?

- Prices direct the consumption and production decisions made by market participants. These decisions result in more efficient outcomes when:
 - Prices reflect the incremental costs of supplying another MW of energy or the incremental benefit from consuming an additional MW.
 - Prices can be reasonably predicted and are known by both producers and consumers, who are able to respond to accordingly.

- Under the uniform price market design, the misalignment of physical and financial schedules can create a disconnect between the actual cost to produce and the cost of consumption, resulting in inefficiencies.
- The first step is to identify specific examples of these inefficiencies.
- The purpose of the study is to target these explicit issues, acknowledging that broader changes to market design may have farther reaching implications.
- End product: A series of recommendations and an implementable action plan to resolve the recognized inefficiencies to IESO senior management.

- Inefficient exports, e.g. the incremental cost of production in ON is higher than the NY delivered price.
- In surplus generation areas, producers have incentives to offer negatively and below their marginal cost, so as to ensure being dispatched (not spill water) and collect positive HOEP.
- Pay-as-bid incentives are intrinsic to the uniform price market design
 - Constrained-on generator has the incentive to offer just below the relevant shadow price. Risk of being dispatched out of merit (or higher uplift cost for consumers).
- Lack of long-run signals for efficient locational investments.
 - Are OPA and government contracts required forever? How can these be better integrated in the uniform market price?

- What are other examples of inefficiencies that should be considered? Which should be considered higher priority?
- What is the “origin” of the inefficiency?
- What is the magnitude of the issue? Is this anticipated to get worse or improve?
- Who are the winners or losers due to the inefficiency?
- What analysis is needed to evaluate the issue?
- Are there other ongoing IESO initiatives that could potentially complement or otherwise address the inefficiency?
- Could this be fixed with minimal intrusion or would this require significant market design changes?
- What are the possible (unintended) consequences of resolving the inefficiency?

- Stakeholders are encouraged to submit written submissions to these questions and provide comments.
 - Deadline: Friday, February 20th, 2009.
- If desired, one-on-one discussions can be scheduled.
- Feedback will be incorporated into an IESO prepared introductory Discussion Paper. The paper will identify the specific examples of inefficiencies under the existing market pricing design (Q2-2009).
- IESO is considering different options for the stakeholder process and the evaluation of potential solutions:
 - SAC MEUP Working Group, MPWG.