

# IESO Stakeholder Advisory Committee

**TO:** IESO BOARD OF DIRECTORS  
**DATE:** JUNE 19, 2008  
**FROM:** STAKEHOLDER ADVISORY COMMITTEE  
**SUBJECT:** **DAY-AHEAD ELECTRICITY MECHANISMS (SE-21)**

This memorandum is to advise the IESO Board of Directors that the Advisory Committee has considered the IESO management's proposal to proceed with the development of the market rules and system design for the common elements of the three options under consideration. The common elements include:

1. A unit commitment process based on 24-hour optimization.
2. Inclusion of three-part bids and offers.
3. Provision of a multiple pass unit commitment process.

IESO management also proposed to continue work with stakeholders to address the outstanding concerns that were raised regarding the preliminary assessment that ranked option two as the preferred option. This work will include further analysis on:

1. Production cost guarantee designs for option one and two.
2. Design for including exports in option one and two.
3. Review of energy forward market design.
4. IESO's concern regarding the alignment of unconstrained and constrained schedules in a day-head market design.

Further analysis and design work to be completed by September 2008 followed by a business case and recommendation to the IESO Board of Directors.

The Committee members representing distributors, transmitters, residential consumers, embedded industrial consumers, wholesale consumer market participants and public sector consumers supported the IESO proposal. The commercial consumer and marketer sectors supported option three – unconstrained day-ahead market.

The generator and environmental sectors were not represented<sup>1</sup>.

Stakeholder written submissions will be provided to the Board in addition to the advice from the Stakeholder Advisory Committee.

## **Summary of Stakeholder Advisory Committee positions:**

Mr. Chuck Stradling (commercial consumers) stated that his constituents' position would be to support option three but he has not had the time to sit down with his constituents to review the recent materials.

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<sup>1</sup> Mr. Richard Horrobin (representing generators), Mr. Bruce Lourie (representing environmental) and Mr. Daniel Whyte (representing generators) were absent. The generator sector provided written submissions.

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Mr. Gary Wight (marketers/traders) supports option three.

Mr. Doug Reeves (distributors) currently favours option two but is looking forward to the analysis around the non-quantified items.

Mr. Mike Humphries (embedded industrial consumers) supports the benefits from the common elements and would like to see more analysis on the non-quantified concerns and the unconstrained versus the constrained before putting support forward for Option three.

Mr. John Witjes (public service consumers) stated that the public service community supports option one but is also supportive of option two if the design for the energy forward market could be developed and detailed for stakeholder comment.

Ms. Julie Girvan (residential) supports option two and is interested in the work to address the concerns of Mr. Wight.

Mr. Steve Dorey (transmitters) said that if he had to choose today, he would support option two but noted that it is not necessary to decide now.

Mr. Adam White (wholesale consumer market participants) supports the comment elements that are in option one and two and noted more work needs to be done.

Mr. Brian Bentz (distributors) favours option two subject to seeing the specifics around the energy forward market.

Mr. Paul McMillan<sup>2</sup> (marketers/traders) indicated that there is strong convergence of opinion by the marketer community that the IESO should proceed with option three.

Stakeholder written submissions will be provided to the Board in addition to the advice from the Stakeholder Advisory Committee.

## **Summary of Preceding Discussion**

Mr. Tench presented the preliminary assessment and the next steps on the day-ahead mechanisms. He outlined the three options that were studied, the costs and the benefits of each, the differences between the options, the stakeholder comments received and the unquantified aspects that need to be considered.

Mr. Rivard outlined the role of the cost-benefit analysis and the methodology and process that was used for the assessment of the day-ahead mechanisms.

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<sup>2</sup> Mr. Paul McMillan sent in his comments via e-mail because of the poor quality of the teleconference equipment. He could not hear the conversations.

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Mr. Bentz asked for more detail on what an energy forward market may look like going forward. Ms. Briggs responded that it would be a pure voluntary market with hourly resolution 24 hours in advance of real time. It was originally envisioned that futures contracts would be closed out 24 hours in advance and current OPA contracts could be changed to have them settled day-ahead. Ms. Briggs indicated that the IESO is willing to meet with stakeholders to determine if a liquid energy forward market can be created.

Mr. Bentz questioned whether the IESO has any estimates on how much supply would clear through an unconstrained day-ahead market versus an energy forward market. Ms. Briggs said that all energy in the market would be cleared as part of an unconstrained day-ahead market, with the IESO in the interim representing those consumers that are unable to represent themselves. In contrast, the energy forward market would not have the IESO representing the bid of the default customers but it could close out with 1000 MW at price highly reflective of real-time price.

Mr. White commended the IESO for its use of a cost-benefit analysis but commented that there are a number of features in the analysis that are asymmetrical. The costs are more certain than the benefits as they will be incurred by both the IESO and market participants. There is also the asymmetry with the timing because the costs will occur upfront and there is uncertainty as to when the benefits will occur. A further asymmetry is that the costs are fixed on a flat volumetric basis but the benefits are likely going to be peaky. It is not clear that the benefits will flow directly to consumers. He supported the cost-benefit analysis as being robust and the decision to proceed. Mr. White said that if the IESO applied the same cost-benefit analysis to other alternatives open to the IESO to improve efficiencies in the market, it would likely identify many other alternatives which would offer greater opportunities to improve efficiency.

Ms. Girvan commented that the impact on consumers was minimal and asked for the downside of not proceeding with any of the options and in what form would the IESO respond to Mr. Wight's comments. Mr. Tench replied the major risk is that efficiencies that are clearly known are left on the table and we move on to something else. The IESO will be responding to all of the comments submitted.

Mr. Wight said that the issue of exports requires further work and study. He also commented to the Board that when they make a decision it should be based on the advice of experts and not on the basis of simply reaching a compromise. Furthermore, if Ontario is going to build a market then regulated contracts need to be integrated to create liquidity and participation. He sees option three as the only option that gives the ability to move forward. Mr. Campbell responded that going forward with option two does not prohibit going farther and it is a challenge to transfer the benefits outlined in other markets to Ontario given our market structure.

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Mr. Humphries questioned why the integration of the regulated contracts is seen as a negative in the cost-benefit analysis. Mr. Rivard responded that it would depend on the type of contract. Generators with fixed price contracts have expressed a concern about not assuming any additional risk that a day-ahead market could bring. It is noted as a negative because of the need for additional work and costs to address the concern that a day-ahead mechanism could raise the risk for those generators to participate.

Mr. Witjes asked about the relative timelines for each option. Mr. Tench replied that timelines for the options are quite similar because the majority of the work is looking at the common elements and moving to an unconstrained day-ahead mechanism will add about an additional three to four months. Implementation is scheduled for the middle of 2010.

Mr. Wight asked that additional work be completed on the benefits for options two and three. Mr. Tench commented that it will be investigated further.

Mr. Dorey commented favourably on the market specific cost-benefit analysis. Given a choice he prefers a simple design. He said that none of the options preclude moving forward with a robust futures market. You can come back to this once the barriers to a robust futures market, which are on the supply side, are dealt with.

Mr. Paul McMillan (provided via e-mail due to poor teleconference quality) that the broker community have discussed this at length and while a small number of members have expressed support for option two, there is strong convergence of opinion that the IESO should select option three for the following reasons: the structure would be consistent with those of neighbouring markets, especially the US Northeast; the need to deal with financial certainty is imperative to address unit commitment, financial transparency and reliability; the recommendation must facilitate exports which option two does not; option three leads to a market which promotes convergence in both the day-ahead and real-time markets; the cost benefit analysis has a positive net present value; it encourages all customers to start becoming responsible for their future price decisions; the net difference in cost of implementation pails in comparison to the cost associated with real-time metering; it will lead to all customers starting to appreciate the full cycle cost of power; and option two is ill-defined in the context of how the forward market would work; a forward market which should not be administered by the IESO.

Mr. Bentz opened up the discussion to accept comments from other stakeholders in attendance.

Mr. Hunt stated that since the preliminary analysis was completed there has been a recent proposed regulation around coal emissions that will affect some of the cost-benefit analysis that was completed and some of the current assumptions. Mr. Rivard responded that the IESO will consider the net impacts of this change.

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Mr. Collie of Burlington Hydro and the past chair of the Electricity Distributors Association, acknowledged the need for continuous improvement even though the savings are modest. He commented that local distribution companies do not have a specific position at this time regarding the three options presented but would be supportive of the options if it leads to transparency and it helps with some of the export issues and high price spikes.

Mr. Bell of OPG stated that OPG is in support of and recognizes the need to proceed with the common elements associated with building a more efficient day-ahead commitment. They are also in support of the IESO's plan to further investigate the design of production cost guarantees and the inclusion of exports in either option one or two. The unconstrained day-ahead market is a detour from the desired end state. He suggested a design that included a uniform-based price from a constrained solution.

Mr. Carey on behalf of Sithe said that at this stage the preliminary analysis overstates the benefits of options one and two. He enquired whether at this stage the IESO would be asking the Board for capital spending to explore the common elements. Mr. Tench responded that at this time there will not be a request for capital from the Board. Mr. Carey commented that there are some severe problems in expecting to develop a meaningful energy forward market given the limited incentive for load to participate.

Mr. Kelly of TransCanada enquired whether the IESO would be asking the Board to put the steps in place so it will be possible to move beyond option two and advance the market. Mr. Tench responded that he would take the suggestion under advisement.

Mr. Lung of Direct Energy stated his support for option three because option two does not support efficiencies in the trading market. He suggested that the Board consider market evolution and market efficiency and consider option three as the appropriate mechanism. He also suggested examination of constrained and unconstrained issues.

Mr. Loughren stated that Bruce Power supports continued market evolution and steps that increase liquidity in the market and opportunities for forward contracting. Bruce Power wants to maintain the same risk/reward arrangement in day ahead as they currently have under their contracts for real time. He also stated that there are significant benefits that have not been quantified in the IESO's analysis and would like to see the IESO continue work to quantify some of the benefits that have not yet been quantified.