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## IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee  
Date: August 25<sup>th</sup>, 2010  
Subject: **Control Action Operating Reserve (CAOR) – Status**

Information Item

Control Action Operating Reserve was introduced in 2003 as a means to reduce counter intuitive pricing drops resulting from the reduction of operating reserve (OR) in real-time. The OR reductions were a representation of permissible sources of reserve (primarily voltage reductions, recallable exports, and the ability to forgo 30-minute operating reserve) that were not otherwise offered into the market and were commonly referred to out-of-market control actions. To better emulate their market value, these control actions were introduced as 400 MW of standing offers in the IESO's energy and OR stacks, in both the real-time and pre-dispatch timeframes. In November 2005, the IESO introduced a second 400 MW into real-time to further improve price fidelity. The original 400 MW in predispach remained, and primarily represented recallable exports.

When the first 400 MW was introduced in 2003, Ontario's neighbouring jurisdictions accepted recallable exports to serve load within their respective marketplaces. Over time the acceptability of recallable energy waned and by late summer 2008 recallable energy was being regularly rejected by Ontario's trading partners. This rejection resulted in significant volumes in failed transactions following our pre-dispatch runs, impacting reliability and price fidelity in Ontario. As an interim step the IESO removed the 400 MW of CAOR from the pre-dispatch sequence eliminating the impact of the offending transactions. At that time the IESO committed to review the CAOR integration and determine what enduring changes, if any, would be appropriate.

The priority of other issues has delayed progress on CAOR. However, the IESO is developing a Stakeholder Plan to address the issue of CAOR, investigate possible options/alternatives and ultimately make recommendations for an enduring integration approach. In the interim, to help facilitate that discussion OPG has been preparing a document for publication reflecting research of comparable treatment from other jurisdictions. It is expected that an IESO Bulletin will be issued in the weeks to come detailing the engagement and soliciting stakeholder representation for this important pricing issue.