

## Counter-Intuitive Pricing Solutions

### IESO Comments on Alternatives Discussed at the Market Pricing Working Group Session of June 10, 2005

| <b>Alternatives Discussed During Stakeholder Engagement</b>   | <b>IESO Comment</b>   |
|---|---|
| IESO implementation of emergency control actions should be communicated to consumers, producers and other participants as quickly as possible             | IESO staff agrees. Currently the only method available to the IESO CRO to alert the market of the use of emergency control actions is the System Status Report (SSR). The CRO is required by Market Rules to issue SSRs when emergency conditions exist or are expected. Although available on the IESO website, SSRs are not normally accessed by all those that may be involved in the market. A more effective communication process will be developed as a high priority by the IESO. Also, the issue of communication of emergency situations will be discussed as a part of the long-term solution to counter-intuitive pricing during emergencies.   |
| Real-time prices that correctly reflect the emergency operating state are required to achieve the desired response from the market.                       | IESO staff agrees. The fidelity of the real-time price signal is essential to achieving the desired response. Eliminating “counter-intuitive” price decreases during emergency situations is therefore a very high priority for the IESO. The proposed temporary solution of increasing real-time Market Schedule demand by an amount that corresponds to the actual reduction in demand on market resources by the implemented control action will, as it is phased in, achieve real-time prices that accomplish this goal. IESO staff is placing a high priority on exploring process and/or system changes that will permit this to happen for all applicable emergency control actions, and will implement this for Emergency Energy purchases at the time of implementation of the Market Rule Amendments. However, it must be highlighted that this action will not necessarily prevent low or decreasing prices occurring simultaneously with emergency conditions. This is because the unconstrained Market Schedule has access to more resources than are available for dispatch, meaning that low market prices or even price drops during emergency conditions may occur in some circumstances.  |
| Current Administrative Pricing methods should be expanded to include the ability to correct counter-intuitive pricing in the proposed temporary solution. | IESO staff disagrees. The Market Rules currently provide for Administrative after-the-fact price changes for specific circumstances, but we do not feel it is appropriate to expand the Administrative Pricing rules to accommodate after-the-fact price changes in the temporary solution to counter-intuitive pricing. The real-time Market Demand adjustment method will produce real-time price signals providing participants opportunities to respond, which is strongly preferred to after-the-fact adjustments. It is recognized that the real-time Market Demand adjustment capability will be phased in over time, meaning that in the early stages, there will still be the possibility of counter-intuitive price drops if an emergency control action such as a voltage reduction is taken. Nonetheless, IESO staff recommends that prices should not be administratively set for such low-probability circumstances during this temporary period because the existing Administrative Pricing methods are prescriptive, (only permit price adjustments by either copying forward the last good set of prices and schedules prior to the event, or copying back the first good set after the event), presenting the real possibility of extreme after-the-fact price changes. This could expose |

|  |   |
|--|---|
|  | consumers to very high market prices without them having had any opportunity to respond. This does not preclude the possibility of applying Administrative Prices during emergency operating periods, if the specific circumstances currently outlined in the Market Rules should occur.  |
| New Administrative Pricing methods should be developed to permit IESO staff to determine an appropriate and fair energy price for the prevailing emergency condition.  | IESO staff disagrees with exploring this alternative as part of the proposed temporary solution to counter-intuitive prices. Establishing criteria to be used by IESO staff to set appropriate and fair administrative prices would require significant study and stakeholder input. This will be carried forward as part of the consideration of the long-term solution to counter-intuitive pricing during emergencies.   |
| Pre-defined energy prices that correlate with specific emergency control actions should be developed, published, and used as Administrative Prices upon implementation of the corresponding control action as part of the proposed temporary solution. | IESO staff disagrees with exploring this alternative as part of the proposed temporary solution to counter-intuitive prices. Establishing appropriate and fair administrative prices would require significant study and stakeholder input. This will be carried forward as part of the consideration of the long-term solution to counter-intuitive pricing during emergencies.  |
| IESO must specify the emergency control actions for which the real-time Market Schedule demand will be increased in the proposed temporary solution.   | IESO staff agrees. The list of control actions that would result in an increase in real-time Market Schedule demand would include Emergency Energy purchases, any voltage reductions, any known load reductions associated with the Emergency Demand Reduction Program, and rotational or block non-dispatchable load shedding. Each of these actions could be taken on either a global or local system basis, with the corresponding real-time Market Demand increase equalling the expected change of demand on market resources. The ability to implement these demand changes will be phased in, as systems changes can be made, with the Emergency Energy purchase change being available first. |
| IESO must define how any Market Schedule demand adjustments during emergency conditions would apply to the Pre-Dispatch process.   | Potential emergency control actions that could take place or are taking place would not be reflected in any pre-dispatch demand forecasts. The purpose of pre-dispatch is to ensure correct decisions can be made for imports / exports / generators etc. to satisfy the Ontario market demand. Reflecting ongoing emergency control actions in pre-dispatch demand would skew the correct decisions that need to be made to alleviate the emergency condition.   |
| Impacts of the proposed temporary solution on exports from non-constrained zones should be examined.   | The IESO staff's proposed temporary solution to the counter-intuitive pricing does not make use of Administrative Pricing, and hence has no impact on exports from non-constrained zones beyond the normal impacts of Ontario's unconstrained market price calculation, which apply equally to loads in an unconstrained zone as they do to exports.  |