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The IESO is considering modifying the bid and offer mechanisms for Linked-Wheels and is preparing to provide an update to the Technical Panel on the Working Group's activities. Silverhill Ltd. has volunteered to supplement in the update by providing the following summary of the benefits of the current design proposal.

Benefits

Silverhill Ltd. believes that the following benefits would result from this change to the Linked-Wheel mechanism :

1. The current system, implemented as a temporary measure, of bidding +\$2000 and offering -\$50 for linked-wheels continues to distort predispach market signals. Distorted prices reflect an "inefficient" or "broken" market. Implementing an economic dispatch of linked wheels would eliminate the current price distortion.

In and above the obligation the IESO has in their role as Market Administrator to remedy broken mechanisms in the operation of the Ontario Electricity Market, this proposal will improve price transparency and result in a more efficient supply and demand mix.

2. When the market is inefficient, there is an unequal distribution of costs and benefits among market participants. For example :
 - a. Bidding +\$2000 for the export leg of a linked wheel may result in higher prices due to export congestion at the intertie. Due to higher congestion costs, generators that are exporting incur additional costs and are forced into buying TRs at inflated prices to hedge this congestion risk.
 - b. Similarly, offering -\$50 for the import leg of a linked wheel may result in increasing import congestion at the intertie. Due to the artificially higher congestion costs, importers in Ontario are forced either to buy TRs at inflated prices or avoid importing all together.

Eliminating the requirement to offer into the market at -\$50 for the import leg of a linked wheel and bid +\$2000 for the export leg of a linked wheel and implementing a mechanism for the economic dispatch of linked wheels would eliminate this unequal distribution of costs and benefits.

3. As per FERC Order 888 issued April 24, 1996 the IESO must provide reciprocal access to their transmission grid. No other market in North America forces a Market Participant to bid \$2050 and expose them to that level of risk for wheeling.
4. The current system also serves to dissuade importers and exporters from wheeling through Ontario due to the significant congestion pricing risk thus contributing to the inefficiency of neighbouring markets.

Sincerely,

George Radan
Senior VP, Trading