

# Decision Criteria

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## Decision Criteria

- Based upon the MPWG guiding principles
- We will use multiple criteria to evaluate the options
- No weighting of criteria, however the IESO feels that Efficiency deserves extra attention

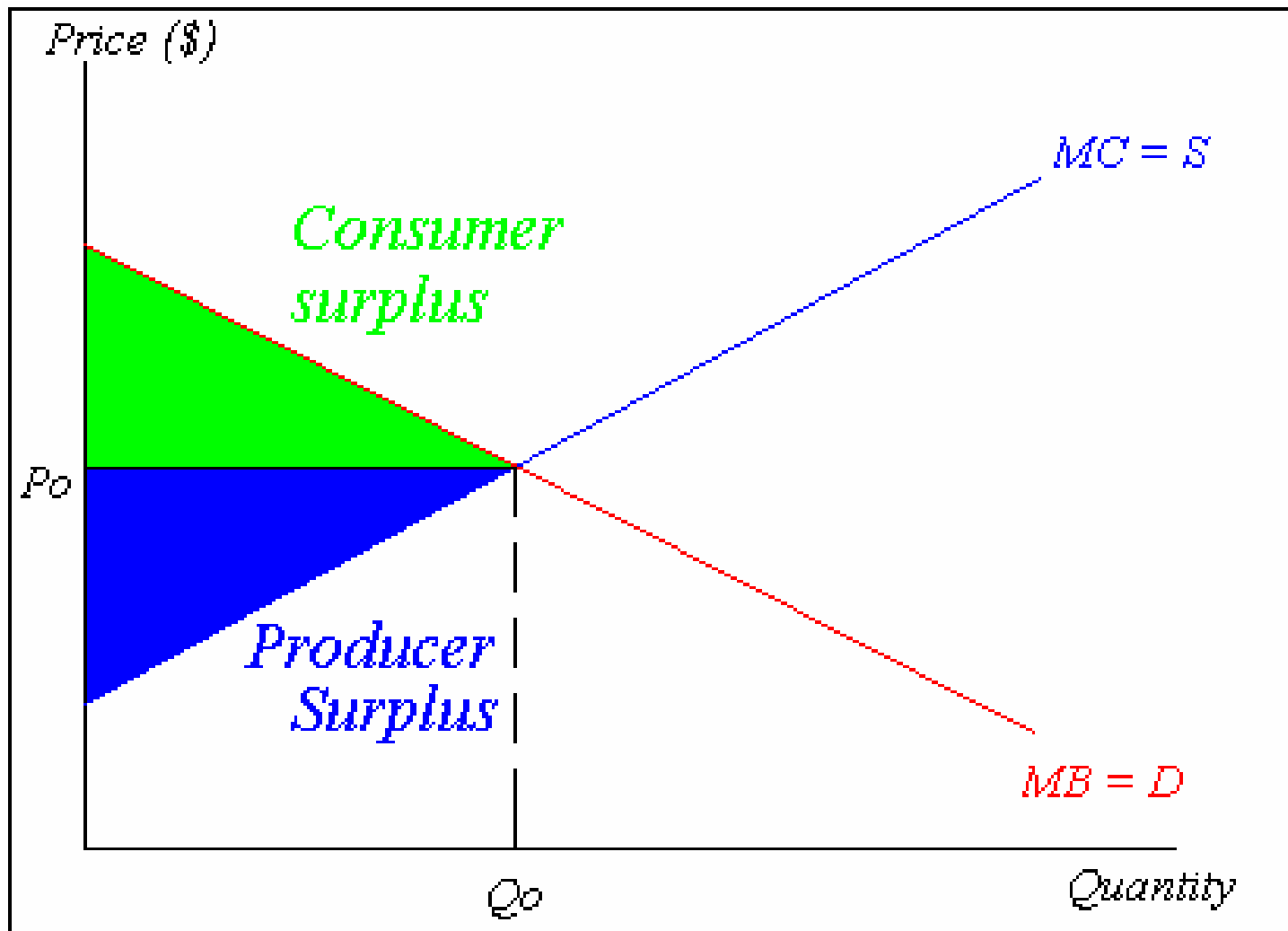
# Efficiency

We can talk about efficiency in terms of time frames. In the short term we can talk about Allocative Efficiency and over time we can talk about Dynamic Efficiency.

# Efficiency

- *Allocative efficiency*: A condition achieved when resources are allocated in a way that allows the maximum possible NET BENEFIT from their use.
- Deals with getting the most efficient outcome with current resources
- Maximizing gain from trade

# Allocative Efficiency



## Allocative Efficiency

- Allocative Efficiency is reduced if energy is consumed by those who place a lower value on the energy than it cost to produce the energy.
- The algorithm is less likely to achieve allocative efficiency if participants do not bid/offer at their true marginal benefit/cost.

# Efficiency

- Producing the right amount in the lowest cost and providing power to those most willing to pay
- Suppliers and consumers can see prices and are able to respond to them
- Price methodology should drive participants short term behaviour to benefit market efficiency (e.g. adjustment of dispatch data including price/quantity and ramp rates)

## Dynamic Efficiency

- *Dynamic Efficiency* refers to efficient use of resources over time. An important aspect of dynamic efficiency is ensuring that innovation and technology choice occurs optimally over time.

## Dynamic Efficiency

If pricing methodology does not reflect system needs, it cannot signal the most efficient long term solution.

For example, if gasoline prices are low, there is little incentive to invest in technology to improve fuel efficiency.

# Efficiency

Price methodology and compensation should provide incentives for efficient technology choice and timely and efficient capacity investment

## Fairness

- Prices should result in transfers of wealth needed to induce the efficient outcomes
- This criteria hinges on an efficient outcome. If we do not have an efficient allocative and dynamic outcome, it is impossible to speak to fairness
- For this criteria, we focused on the change in cash flow.

# Reliability

- Prices should provide incentives to participants to follow dispatch instructions.
- Prices should provide incentives to participants to respond appropriately to address immediate reliability concerns
- Total compensation should provide incentives to ensure long term capacity adequacy

# Transparency

- Pricing methodology should provide a suitable and stable basis for forward contracting. This means that price determination methodology must:
  - be simple and clear
  - produce prices which are predictable
  - produce prices which reflect system conditions