

Notes from the 30th Meeting of the Market Pricing Working Group

Friday August 4, 2006 8:30 – 12:30

DRAFT

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	Ivaco Rolling Mills	Chase, Maia	IESO
Bell, Brian	Ontario Power Generation	Finkbeiner, Darren	IESO
Benner, Ryan	Dofasco	Kozlik, Ken	IESO
Blechta, George	Falconbridge	Loughren, Chris	IESO
Brown, David	Ontario Energy Board	MacKenzie, John	IESO
Cary, Rob	Cardinal Power	Morris, Elizabeth	IESO
Clark, Wayne	AMPCO	Nia, Sharare	IESO
Lung, Gene	Direct Energy	Peerbocus, Nash	IESO
McCuaig, Paul	Powerex	Penn, Richard	IESO
Yang, Bun Li	E4		

Item #1: Administration

Bill Wilbur will no longer be coordinating the MPWG activities. He is now leading an IESO team studying location marginal pricing and the design of a day-ahead market. John MacKenzie is replacing Bill Wilbur as coordinator of the MPWG.

Ken Kozlik noted that due to the diversity and collective experience of the MPWG, future MPWG activities may include “non-pricing” issues.

Elizabeth Morris suggested that the MPWG Terms of Reference be reviewed and updated, if necessary, to reflect future expected activities. Also, the MPWG should consider adopting “meeting norms” in order to improve meeting effectiveness. Time will be set aside at the next regular MPWG meeting for both these matters.

Ken Kozlik advised that the IESO is still developing its recommendation regarding the 12x ramp-rate issue. The target publication date is August 15, 2006. If the IESO recommended change is not a change that has been discussed with the MPWG, the IESO will convene a special meeting of the MPWG to review the recommendation prior to the September 5th, 2006 SAC meeting.

Item #2: Intertie Transactions Setting Real-Time Price

Ken Kozlik presented the IESO opinion that intertie transactions should not be able to set real-time market prices (refer to published presentation).

Member Questions and Comments

- a. Would intertie transactions be eligible to set price in a day-ahead market?
 - Response: most likely yes, as in a day-ahead market, intertie transactions would be incremental resources and so should be able to set price.
- b. One member noted that the Alberta market has developed but not yet implemented a mechanism for allowing intertie transactions to set real-time prices.
- c. Consumers need to understand the price, price volatility, other market costs and efficiency impacts of this issue in order to formulate an opinion on this issue.
 - Response: There has been limited analysis of price and cost impacts done to date. Assumptions are key (refer to next steps below for IESO commitment on analysis).
- d. If intertie transactions were eligible to set price in a day-ahead market, the issue would be solved. What is the earliest date for a day-ahead market in Ontario?
 - Response: end of 2008
- e. The issue of scheduling intertie transactions on a peak versus an average load forecast is related to, but could be uncoupled from the issue of intertie transactions being eligible to set real-time price. Using the peak load forecast to schedule intertie transactions introduces a real-time price suppression bias. Members suggested options such as:
 - Schedule transactions on an average load forecast basis, then test that schedule against the peak load forecast and if there is an operating reserve shortfall, schedule additional resources until shortfall eliminated.
 - Use peak schedule in constrained pre-dispatch schedule for reliability reasons and use average load forecast in pre-dispatch market schedule
- f. One member questioned whether the stated principle “only resources that are dispatchable in real-time are able to set the real-time price” that forms the rationale for the IESO opinion is truly a market design principle. Another member countered that the stated principle was a reasonable interpretation of the economic efficiency market design principle. This member stated the real issue is “what resources are truly marginal”.
- g. Potential changes in importer and exporter behaviours also need to be considered.

Next steps on this issue:

- August 8 – IESO to advise MPWG members on the form of analysis of price impacts that can be completed by August 25th, 2006 (e.g. include only scheduled inertie transactions; include all offered inertie transactions; peak and average load forecast)
- August 11 – MPWG members to provide comment/feedback on the proposed analysis
- August 25 – IESO to publish analysis results
- September 1 – MPWG meeting to review analysis results
- Mid-September – MPWG members to submit written opinions on issue
- October 6 – MPWG meeting and discussion of opinions
- November – SAC and IESO Board

Item #3: Locational Marginal Pricing Study

John MacKenzie (IESO) gave a presentation on a proposed scope and schedule for a study of locational marginal pricing models for Ontario (refer to published presentation).

Member Questions and Comments

- a. Members suggested the following issues need to be included in the scope of the study:
- Adjusting the existing shadow price calculations to be “settlement” quality e.g. MMCP filter, penalty function violations
 - Market incentives for transmission and generation investment
 - Static vs dynamic loss modelling
 - IPSP/OPA interaction/role in future transmission and generation investment
 - Existing OPA supply contracts e.g. RES
 - Impact of regulated consumer prices
 - Treatment of ancillary services: day-ahead or real-time?
 - Impact of supply mix and other possible futures e.g. off-coal program, natural gas prices
 - Expected benefits of a day-ahead market

Next steps on this study:

- September 1 MPWG meeting – Review of LMP stakeholder plan and IESO proposal for analysis to be undertaken

Item #4: Modelling Marketplace Response to Market Pricing Changes

Nash Peerbocus (IESO) presented the preliminary analysis and results of the IESO efforts to model marketplace response to changes in market pricing (refer to published presentation).

Member Questions and Comments

- a. Does a New York market price spike get “traded away” like an Ontario market price spike?
 - Response: the NYOH zone price is relatively stable, as flow in NY east to New York City is often constrained. As a result the NYOH zone price and Ontario HOEP tend to move in tandem.
- b. Is the reported 18% drop in exports an absolute reduction?
 - The reduction is 18% of the average export volume, which is 700-800 MW.

Item #5: Other Activities

Review of Emergency Pricing

- IESO to report on actual occurrences of emergency control actions and resulting prices at September 1 MPWG meeting.
- A member requested that a breakdown of CMSC payments for Tuesday August 1 be included in the emergency energy report. He reported that CMSC payments were \$5.5 million on August 1.
- MPWG also to consider administration of locational price signals during times of system stress.

Review of Control Action Operating Reserve

- IESO to report on impact of Control Action Operating Reserve at December 1 MPWG meeting.

Review of Peak vs Average

- To be discussed at October 6 MPWG meeting.

Other

- Darren Finkbeiner (IESO) provided a summary of system operations during the July 28 – August 2 heat wave.
- Next meeting – Friday September 1, 2006.