

OPG Comments on Letting Interties Set Price - Sep 29, 2006

OPG is in favour of allowing intertie transactions to set real-time price. This change will improve market efficiency, is consistent with the longer term goals for the market and will improve the Ontario market's ability to rationalize new capacity.

1. Market efficiency will be improved as price will more closely reflect the actual costs of supply incurred to meet demand. In the present design, it is apparent that imports are often scheduled in predispach at higher prices than that paid to domestic generators in real-time. IESO has objected to letting interties set price on the basis that an existing "market principle" requires that price can only be set in real-time by dispatchable resources. We are not convinced that this constraint is in fact a market principle. Market principles include Efficiency, Fairness, Reliability, Transparency and Robustness. The details of what can and cannot set price are determined by the specific mathematical methods implemented in the IESO's software and this software may not necessarily fully reflect market principles. Consequently we suggest IESO should provide further explanation and education on why they feel price can only be set by dispatchable resources. We are currently in conversation with NY-ISO to gain a clearer understanding of how they handle non-dispatchable resources such as block loaded gas turbines. We believe the New York price calculation uses a hybrid model which treats fixed block loaded units as though they were fully dispatchable and that they can set price when required.
2. Letting interties set price will also reduce inefficient exports from Ontario. The Ontario HOEP is often less than that paid to the imports and less than that paid to new generation such as renewable and new gas-fired combined cycle units which receive additional revenue via contracts. Not letting interties set price contributes to this inefficiency by suppressing price and increasing the amount of uplift required to pay the contract rates for these new suppliers and the amount of exports supplied uneconomically. The net result of continual uneconomic supply of exports is an unsustainable transfer of wealth out of Ontario.
3. In Day Ahead Markets intertie transactions can set price. It is our understanding that the majority of market participants support the introduction a DAM in Ontario. The IESO has indicated that it will take over two years to implement a DAM. Why shouldn't interties set price in the nearer term given that is the direction the market is heading?
4. The IESO's analysis on Interties Setting price indicated that it may be possible to eliminate IOG given that the intertie market schedule would be allowed to vary through the hour. Eliminating IOG could simplify a very complex area of the market design as has been evident in the recent complex rule changes regarding DA-IOG.

5. OPG recommends that further discussion time be allocated to this topic to allow MPWG members to provide time to discuss the implications of the information provided at the September 1st MPWG meeting. Further discussion should take place around:
 - eliminating the IOG,
 - impact on price net of global adjustments, rebates and arbitrage,
 - import and export CMSCs on a wide range of scenarios,
 - combined impact of average predispach demand forecast and imports setting price, and
 - approximate idea of implementation time and effort.

In any assessment regarding the impact of a potential change in energy price it would be helpful to point out other price related developments. For example, every additional MWh of energy produced from self-schedulers such as wind turbines has lowered real-time energy price as these resources are treated as though they have zero cost. The quantity of wind supplied energy is forecast to increase steadily over the next few years.

6. OPG has concerns with Scenario 2 within the paper presented on Sept 1st as it departs from the physical schedule in that it retains all imports and exports in the real-time unconstrained run – even those which are not feasible or have failed to clear in the adjacent market. This design may lead to additional CMSCs and possibly to unanticipated consequences and should therefore be more fully analyzed prior to implementation.