

Notes from the 33rd Meeting of the Market Pricing Working Group

Friday October 6, 2006 8:30 – 1:30

FINAL

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	Ivaco Rolling Mills	O'Connor, Sandy	TransAlta
Alpajaro, Peter	Bruce Power	Rothman, Mitch	Navigant Consulting (on behalf of TransAlta)
Bell, Brian	Ontario Power Generation	Yang, Bun Li	E4
Bellavance, Eric	Hydro-Quebec Production		
Benner, Ryan	Dofasco	Briggs, Jeannette	IESO
Blechta, George	Xstrata	Chase, Maia	IESO
Brownlee, Cheryl (teleconference)	Ontario Mining Association	Devereaux, Dave	IESO
Cary, Rob	Sithe Power	Dieterle, Chris	IESO
Dade, Christine	Direct Energy	Katsuras, George	IESO
Dottori, Paul	Tembec	Kozlik, Ken	IESO
Dumais, Dan	Xstrata	Lafoyiannis, Peter	IESO
Duzy, Margaret	TransCanada Energy	Loughren, Chris	IESO
Hunter, Kelly	Manitoba Hydro	MacKenzie, John	IESO
Kerr, Paul	Coral Energy	Maria, Gamal	IESO
Leung, Linda	Ontario Power Generation	Rivard, Brian	IESO
Kuriychuk, Mike	Pathchoice Energy Consulting	Travers, Scott	IESO
Mancherjee, Kevin	Ontario Power Authority	Wilbur, Bill	IESO

Item #1: Administration

a. Review Notes from September 1, 2006 Meeting

- No comments
- IESO to post notes as final

b. Proposed Terms of Reference Changes for Market Pricing Working Group

Member Questions, Comments and Discussion

- In the decision criteria, the definition and description of allocative and dynamic efficiencies may not be complete (e.g. does not include any reference to “price”; does reference to “reserve energy” mean operating reserve?). Allocative and dynamic efficiencies are key decision criteria and the working group needs to have a common understanding of what these terms mean.
- The IESO requested members to provide any additional feedback to the IESO by Friday October 13th, 2006.

IESO to include the review of the definition and description of allocative and dynamic efficiencies on the agenda of an upcoming MPWG meeting – preferably the November meeting (see action item AI 33-1).

c. Update on Ramp Rate Multiplier Issue

Ken Kozlik (IESO) provided the following update on this issue:

- IESO recommendation presented to Stakeholder Advisory Committee (SAC) on September 5, 2006. SAC members representing consumers raised significant concerns regarding the IESO analysis and recommendation.
- IESO recommendation and SAC feedback reviewed by IESO Board on September 22, 2006. The Board directed IESO staff to discuss with stakeholders the basis for the IESO analysis and recommendations. The Board deferred any decision on the ramp rate multiplier issue to their November 17th, 2006 meeting.
- IESO staff has met with AMPCO representatives to discuss their concerns and the IESO analysis. The IESO will publish any information or materials related to these discussions. IESO staff will be reporting back on the results of these discussions to the November SAC and IESO Board meetings.
- The IESO has published letters from stakeholders regarding this issue under the headings “Input from Stakeholders Prior to Board Meeting” at the following location on the IESO web site:

http://www.ieso.ca/imoweb/consult/consult_se17.asp

Item #2: Locational Marginal Pricing (LMP) Study – Review of Shadow Prices Analysis

- Bill Wilbur (IESO) gave a presentation on results of the review of shadow prices (refer to published presentation).
- Ken Kozlik thanked representatives for feedback on the draft LMP stakeholder plan and agreed that the previous draft LMP stakeholder plan (SE-25) was not consistent with the IESO's current thinking and progress on this study. The IESO will not be recommending an LMP model to the November SAC and IESO Board meetings. Rather, the IESO expects to be seeking SAC and the IESO Board concurrence to continue with the analysis of LMP models. The IESO is looking to the Working Group to help identify all the required analyses and issues. A revised stakeholder plan has been published on the IESO web site at the following location:
<http://www.ieso.ca/imoweb/pubs/consult/se25/se25-stakeholder-plan-r1.pdf>.

Member Questions, Comments and Discussion

- a. Determination of Shadow Prices, Zones
 - The IESO re-iterated that the historical shadow price analysis should not be interpreted to be an indication of what locational prices would have been or could be in Ontario.
 - The IESO confirmed that the 10 zones were defined by known transmission interfaces rather than similarity of shadow prices. The IESO also confirmed that each node was the connection point for a dispatchable resource.
 - The IESO clarified that the shadow price for a given node is calculated by first, calculating the Richview reference bus shadow price and then adding (i) the marginal cost of transmission losses between the node and the Richview shadow bus and (ii) the marginal cost of congestion between the node and the Richview reference bus.
 - Members asked for clarification as to why intertie nodal prices are not included in the analysis (see Action item AI 33-2).
 - Additional information on intertie flows, zonal demands would be helpful in understanding the historical shadow price information.
- b. Transmission Losses
 - Modelling of transmission losses has significant influence on shadow prices. The IESO should consider alternatives to the current use of static loss factors for each node (e.g. seasonal, on and off peak etc) and the impact such a change would have on locational pricing models.
 - IESO should quantify the contribution of transmission losses to the shadow prices and/or normalize shadow prices for loss factors.
 - It was suggested that marginal losses can be significantly greater than average losses. Since locational pricing uses the cost of marginal losses, there would be an over-recovery of dollars from consumers for transmission losses. This over-

- recovery could then be “down-lifted” to market participants. Further analysis is required
- c. Northwest and northeast regions:
- Due to “stringiness” of transmission in these regions, transmission losses are a significant contributor to shadow price differences.
 - Hydroelectric generation water conditions (i.e. drought, normal, surplus) significantly influence prices in these regions. Study period is believed to be a period of water surplus which would exert downward pressure on price. Could the IESO normalize the shadow prices to normal water conditions?
 - Offer prices and strategies for both thermal and hydroelectric resources in these regions are likely to change in an LMP regime.
- d. What would a locational pricing world be like in Ontario?
- Members strongly suggested that the IESO identify if and why total market costs would be expected to be different under an LMP regime relative to the current uniform pricing regime.
 - While recognizing that predicting the future prices and impacts of any LMP regime is fraught with uncertainty, some members suggested that the IESO should use analytical forecasting tools and models to better identify those prices and impacts.
- e. Other Significant Factors Affecting Shadow Prices and Future Market Prices
- Natural gas prices and neighbouring electricity market prices, particularly with respect to southern Ontario electricity prices.
 - Compliance with dispatch instructions. The drivers for compliance and the implications of non-compliance would change in an LMP regime. The New York market has invested heavily in addressing dispatch non-compliance when calculating LMPs.
- f. Other Issues
- Maximum Market Clearing Price (MMCP) and offer/bid price caps: the IESO should examine impact of a higher MMCP. The choice between MMCP and offer/bid caps is really a decision between a “market driven” and “cost driven” mechanism and the decision may be different under LMP versus unconstrained pricing.
 - The IESO, when presenting a new idea for general reaction and discussion (e.g. the “keep it simple” alternative), should clearly identify the idea as such. Member raised concerns that if such ideas are generally circulated, persons could interpret the idea to be an IESO position or recommendation when it is not.
 - Other possible options and analysis include: (i) two or three zones each with a uniform price calculated by weighted average of the nodal prices within the zone (ii) impact on OPA and other legacy contracts (iii) impact of arbitrage with neighbouring markets

Next steps on this study:

- The IESO shall, prior to publication of the presentation, revise the presentation to clarify that the “keep it simple” alternative is presented only for discussion purposes.
- The IESO shall provide Working Group members with a draft of the SAC slide presentation by Thursday October 12th 2006. Members are to provide feedback on the draft presentation to the IESO by the end of Monday October 16th 2006.
- The IESO shall circulate meeting notes to meeting attendees first for feedback. Once feedback is received, the IESO would revise the notes as required and then publish the meeting notes as final.

Item #3: Emergency Control Action Pricing

Deferred to November 3rd 2006 meeting.

Item #4: Intertie Transactions Setting Real-Time Price

Member Questions, Comments and Discussion

- Brian Bell (OPG) summarized the written opinion provided by OPG on this issue (refer to published feedback). The main point is that OPG does not want this issue to be closed, even if it is judged that allowing intertie transactions to set real-time price is not appropriate at this time given that day-ahead market discussions will necessitate that this issue be addressed.
- Sandy O’Connor (TransAlta) summarized the written opinion provided by TransAlta on this issue (refer to published feedback). TransAlta would also prefer that this issue not be closed.
- The IESO proposed that further work on this issue be included with the day-ahead market initiative. One of the key issues to be addressed in the day-ahead market design is the convergence of day-ahead market prices to real-time market prices. The role of intertie transactions to set market prices (day-ahead and/or real-time) is to be considered in that context as part of the day-ahead market study.
- Members agreed to defer further work on this issue on the IESO assurances that:
 - a. the deferral does not prejudice future decisions; and
 - b. if Ontario does not implement a day-ahead market, the issue of intertie transactions setting real-time market prices would be re-visited.
- Members raised the following points during the discussion:
 - a. Would dynamic scheduling be required to facilitate intertie transactions setting real-time market prices?
 - b. This issue is related to the use of pre-dispatch peak versus average demand forecast.

Item #5: Pre-dispatch Peak vs. Average Demand Forecast

Deferred to November 3rd 2006 meeting.

Action Items

- AI 33-1: IESO to include a review of the definition of allocative and dynamic efficiencies on agenda of future MPWG meeting – preferably the November 3rd 2006 meeting.
- AI 33-2: IESO to advise MPWG why intertie nodal shadow prices are not included in the shadow price analysis.