

Notes from the 34th Meeting of the Market Pricing Working Group

Friday November 3, 2006 9:00 – 10:30 (Webcast)

DRAFT

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Alpajaro, Peter	Bruce Power	Briggs, Jeannette	IESO
Bell, Brian	Ontario Power Generation	Devereaux, Dave	IESO
Bellavance, Eric	Hydro-Quebec Production	Dieterle, Chris	IESO
Cary, Rob	Sithe Power	Kozlik, Ken	IESO
Dottori, Paul	Tembec	Loughren, Chris	IESO
Duzy, Margaret	TransCanada Energy	MacKenzie, John	IESO
Hunter, Kelly	Manitoba Hydro	Maria, Gamal	IESO
Kerr, Paul	Coral Energy	Rivard, Brian	IESO
Kuriychuk, Mike	Pathchoice Energy Consulting	Wilbur, Bill	IESO
Lung, Gene	Direct Energy		
Mancherjee, Kevin	Ontario Power Authority		
McQuaig, Paul	Powerex		
O'Connor, Sandy	TransAlta		
Passi, Mark	Xstrata		
Rothman, Mitch	Navigant Consulting (on behalf of TransAlta)		
Toma, Tony	Wescast		
Yang, Bun Li	E4		

Item #1: Administration

a. Review Notes from October 6, 2006 Meeting

- No comments
- IESO to post notes as final

b. Proposed Meeting Schedule for 2007

Member Questions, Comments and Discussion

- In order to facilitate travel, members requested that Working Group meetings in 2007 be scheduled (i) on a day other than Fridays and (ii) on the day before or after meetings of the Stakeholder Advisory Committee.

IESO to revise and re-issue 2007 Working Group meeting schedule accordingly (refer to action item 34-1).

c. Update on Ramp Rate Multiplier Issue and Locational Marginal Pricing Study

Ken Kozlik (IESO) provided the following update:

- **Ramp Rate Multiplier Issue**

- (i) IESO still intending to recommend 3x ramp rate multiplier to November IESO Board;
- (ii) IESO has had discussions with AMPCO representatives regarding the IESO analysis; additional material on the analysis has been posted at the following location on the IESO web site:
http://www.ieso.ca/imoweb/consult/mep_mp.asp under October 19, 2006.
- (iii) The IESO Board is aware of the stakeholder concerns regarding this issue.

- **Locational Marginal Pricing Study**

- (i) IESO presented three options to Stakeholder Advisory Committee 1 Nov 06: first option: proceed aggressively with LMP study; second option: abandon LMP study and examine day-ahead market with uniform pricing; third option: proceed at measured pace with LMP study and examine improvements to Day-Ahead Commitment Process (DACP);
- (ii) SAC did not provide a clear recommendation as to which option; first and third options appeared to have most support.
- (iii) IESO staff to take same three options to IESO Board meeting 17 Nov 06 for advice and direction.

Member Questions, Comments and Discussion

- Members expressed disappointment that SAC was not able to make a clear recommendation.
- The Day-Ahead Commitment Process is not a “market” and should not be considered as a substitute for a day-ahead market.

Item #2: Emergency Control Action Pricing

- Chris Loughren (IESO) gave a presentation on results of the review of emergency control action pricing since MR-00297 was implemented (refer to published presentation):
http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061006-emergency-pricing.pdf

Member Questions, Comments and Discussion

- a. Had the IESO control room added the appropriate amount of demand into the market schedule for each of the emergency control action events?
IESO answer: yes.
- b. What is “bottled generation”?
IESO answer: generation that is available to provide energy but is limited by transmission constraints to producing less than its economic maximum. Such constraints are not reflected in the market schedule sequence, which determines uniform market prices, and so bottled generation can influence price.
- c. Has the IESO examined how other jurisdictions establish market prices during emergencies?
IESO response: Other jurisdictions do not have a market schedule. Their pricing would reflect the reduced demand resulting from the emergency control action. Some jurisdictions do “after that fact” price re-run and administration to create prices that reflect the emergency condition appropriately, albeit well after the fact.
- d. Recognized that appropriate market payments to suppliers during local emergencies are achieved through CMSC payments. Appropriate pricing during such emergencies is strongly tied to locational pricing. However, concern that placing issue on “back burner” until the LMP study is completed, as proposed by the IESO, may result in lack of progress. Request that IESO continue to investigate emergency pricing in other jurisdictions and improve IESO real-time communication to market participants during emergencies.
- e. The emergency control action pricing implemented under MR-00297 has been successful in that it has stopped counter-intuitive pricing. Administration of prices “after the fact” is not preferred as participants cannot respond to those prices. Improved IESO communication to market participants in real-time is strongly urged so

that participants can respond and also assist in addressing the emergency e.g. self reduce load.

Next steps on this issue:

- IESO to explore means to improve IESO real-time communication with market participants during emergencies (refer to action item 34-2).
- IESO to continue investigating use of locational pricing signals during local emergencies and implications of using such prices for settlement purposes (refer to action item 34-3).

Item #3: Use of Pre-Dispatch Peak vs Average Demand Forecast

- Chris Loughren (IESO) gave a status presentation on this issue (refer to published presentation):
http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061006-peak-average.pdf

Member Questions, Comments and Discussion

- a. Would the IESO consider using seasonal, day-type or other more sophisticated criteria when determining which hours in which it would be acceptable to use an average demand forecast?
IESO answer – yes. The IESO will develop criteria for determining which hours in which it would be acceptable to use an average demand forecast. The IESO will bring those criteria to the Working Group for review (refer to action item 34-4).
- b. Following the suggestion from the IESO that the Intertie Offer Guarantee (IOG) program should also be reviewed with this issue, a member asserted that Intertie Offer Guarantee (IOG) payments were required to address timing issues related to scheduling intertie transactions, not reliability. The IESO clarified that the justification for IOG payments was reliability. The payments were necessary to encourage and protect importers from real-time prices falling below the accepted import offer price. The IESO stated that there was no comparable guarantee for export transactions even though exports are subject to the same timing issues as imports. The difference is that there are no comparable short-term Ontario reliability benefits associated with exports.
- c. A member commented that there was nothing in the analysis that justified the use of peak demand forecast in any hour. The alternative of using of average demand forecast in all hours should not be abandoned.

Next steps on this issue:

- IESO to conduct analysis of inefficiencies resulting from use of peak demand forecast;
- IESO to identify criteria (and options?) for using average demand forecast in certain hours.

- IESO to report back at December MPWG meeting, including discussion of published price impact analysis (refer to action item 34-5).

Item #4: Other Business

- Members suggested and the IESO agreed to the following topics for future meetings:
 - a. Standing agenda item on anomalous pricing results: HOEP, uplifts;
 - b. Explanation, history and projections of the Global Adjustment and other regulated rebates
- Working Group members requested that IESO re-schedule the December meeting to a day other than Friday, December 1. The IESO will canvas Working Group members for availability and re-schedule the 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.
Update: the IESO believed that the discussion on efficiencies would not be effective in a web cast meeting format. This review and discussion will be held at the December meeting.
- AI 33-2: IESO to advise MPWG why intertie nodal shadow prices are not included in the shadow price analysis.
- AI 34-1: IESO to revise and re-issue Working Group 2007 meeting schedule such that meetings are scheduled (i) on a day other than Fridays and (ii) on the day before or after meetings of the Stakeholder Advisory Committee.
- AI 34-2: IESO to explore means to improve IESO real-time communication with market participants during emergencies.
- AI 34-3: IESO to continue investigating use of locational pricing signals during local emergencies and implications of using such prices for settlement purposes.
- AI 34-4: IESO to develop criteria for determining which hours in which it would be acceptable to use an average demand forecast. The IESO will bring those criteria to the Working Group for review.
- AI 34-5: IESO to report back at December MPWG meeting on peak vs average efficiencies and price impact analysis.