

## **ISSUE 24: REDUCING FREQUENCY OF FAILED INTERTIE TRANSACTIONS**

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### **Date Raised**

Noted in the May 2003 Pricing Team Report.

### **Description**

Intertie transactions are scheduled by the IMO's final (one hour-ahead) pre-dispatch sequence. Prior to the start of the dispatch hour, the IMO separately confirms all intertie transaction schedules with its neighbours. When an intertie transaction that is scheduled by the IMO is not concurrently scheduled by the neighbouring control area, it is considered a "failed" transaction and is removed from the real-time scheduling sequence. Such failed intertie transactions are a contributing factor to the difference between resultant pre-dispatch and real-time prices. They also often result in a requirement to use out-of-market control actions and represent a reliability concern.

### **Background**

Since the opening of the IMO-administered markets, the failure of market participants to successfully schedule energy across the interties has been an ongoing problem. The failure of intertie transactions is the result of reliability curtailments, participant errors, or most often, economic failures. An economic failure is when an intertie bid or offer that is scheduled by the IMO's final pre-dispatch sequence but is not scheduled by the adjacent market. These failures usually occur on the IMO's intertie with New York, currently the only jurisdiction adjacent to the IMO with a functioning energy market. This requires that participants wishing to transfer energy between the IMO and NYISO must place a bids/offers into both markets and be successfully scheduled in both markets for the transaction to take place. On many occasions, the IMO has import transactions from NYISO scheduled in the final pre-dispatch which have not been scheduled by NYISO, and this discrepancy is not determined until the schedules are confirmed about 30 minutes prior to the start of the dispatch hour. If there are insufficient internal resources to meet the expected demand for the upcoming hour, the IMO has no choice but to employ out-of-market control actions to ensure reliability.

The IMO has made some progress on this issue. The introduction of a co-ordinated transaction protocol with the NYISO in the summer of 2002, followed by improvements to that protocol in June of 2003 have reduced intertie transaction failures, however such failures and their pricing impacts still persist. Also, changes to compliance guidelines have served to better ensure that participants meet their obligations under the market rules while attempting to navigate other markets in sequence with Ontario.

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### **Why a Pricing Issue**

Intertie transaction failures negatively affect the transparency and efficiency of the market. The intertie transactions are scheduled by final pre-dispatch as required to meet the peak demand of the dispatch hour. When some of these transactions subsequently fail, the market demand is no longer satisfied but it is too late for some participants to respond. The failures ultimately impact on the real-time market clearing price and add to the disparity between pre-dispatch and real-time prices.

### **Impacts of Issue**

#### *Market Impact*

Failed intertie transactions will affect the real-time price, making it higher or lower than the pre-dispatch price, depending on the situation. A failed import transaction that is replaced by internal generation will result in upward pressure on the real-time price, while if that same import failure must be replaced by an out-of-market control action, the affect on real-time price will likely be downward. Reducing failed intertie transactions will reduce the gap between pre-dispatch and real-time prices.

As highlighted in the above example, the failure of import transactions will result in increased use of out-of-market control actions, which often results in counter-intuitive real-time prices.

Intertie transaction failures also have operational impacts on dispatchable facilities, which will receive real-time dispatch instructions different than what was anticipated based on their final pre-dispatch schedules.

When failed transactions lead to lower real-time prices than pre-dispatch prices, increased Intertie Offer Guarantee (IOG) payments result.

#### *Participant Impact*

TBD

#### *IMO Processes and Procedures Impact*

Solutions may involve Market Rule and software changes, but would definitely require procedure changes. May also require co-ordinated changes in adjacent jurisdictions.

### **Related Issues**

- 001: Pre-Dispatch Price Sensitivity
- 009: Use of Peak Demand Load Forecast in Pre-dispatch
- 014: Hour(s)-Ahead Price Signal Uncertainty

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### **Options Considered**

[To be developed]

### **Selected References**

Market Pricing Issues Team Report – May 28, 2003

[http://www.theimo.com/imoweb/pubs/consult/mktOps/mo\\_paper\\_PricingIssues\\_20030528.pdf](http://www.theimo.com/imoweb/pubs/consult/mktOps/mo_paper_PricingIssues_20030528.pdf)