

ISSUE 26: RELATIONSHIP BETWEEN COMPETITIVE AND REGULATED WHOLESALE PRICES

Date Raised

Raised in April 2004 by the IMO Market Pricing Working Group.

Description

A number of potential pricing issues have been identified by the IMO Market Pricing Working Group in anticipation of the imminent changes to Ontario's electricity sector as provided for by legislation currently under development by the Government of Ontario. Bill 100 is predominantly enabling legislation. Consequently, a significant number of its provisions will be addressed in greater detail in ensuing regulations. As such, due to the "still in progress" nature of Bill 100 and the nascent status of its associated regulations, there is presently insufficient information on which to identify and/or anticipate all related pricing issues with any great detail or depth. For the time being, the IMO Market Pricing Working Group has identified two general issues that arise from the Working Group's understanding of Bill 100 as currently drafted (i.e. as introduced to the Legislative Assembly of Ontario for first reading). These issues encompass:

- (a) Concerns relating to the offering behaviour of "Heritage Pool" generators – particularly where such generators would be self-scheduling - and associated impacts (whether complementary or distortionary) on market efficiency and reliability; and
- (b) Concerns relating to ensuring meaningful linkages between wholesale and retail prices, broadly in view of promoting effective consumer participation in electricity and contract markets and facilitating demand response.

Until such time as these and other related issues become better defined, this issue summary shall remain "as is" pending further information, discussion and prioritization.

Background

On June 17, 2004 the Government of Ontario introduced *Bill 100: the Electricity Restructuring Act, 2004*¹. The proposed Bill reflects the Ontario Government's "new vision" for the province's electricity sector as unveiled by the Minister of

¹ Bill 100 has been referred to the Standing Committee on Social Policy, and hearings are expected to proceed in August and early September, 2004.

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Energy in April 2004. The expectation is that the new structure for the electricity sector would be in place in early 2005, subject to passage of the legislation. Features of the government's proposed vision include

- A combination of a regulated and a competitive electricity generation sector wherein part of the supply would be price-regulated and part would be paid competitive market prices;
- A new Ontario Power Authority that would ensure an adequate, long-term supply of electricity, including a new Conservation Secretariat, headed by a Chief Conservation Officer; and
- A requirement that the Ministry of Energy set targets for conservation, the use of renewable energy, and the overall supply mix of electricity in the province of Ontario.

More recently, the Ontario government issued a Request for Proposals (RFP) for up to 300 MW of renewable energy capacity to help meet the target that 1,350 MW of all generating capacity come from renewables by 2007, increasing to 2,700MW by 2010. In addition, the government has also started to develop an RFP for up to 2,500MW of new electrical generation capacity and/or demand-side management initiatives to be introduced as early as 2005.

Why a Pricing Issue

[To be developed]

Impacts of Issue

Market Impact

[To be developed]

Participant Impact

[To be developed]

IMO Processes and Procedures Impact

[To be developed]

Related Issues

[To be developed]

Options Considered

[To be developed]

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Selected References

Bill 100: *An Act to amend the Electricity Act, 1998 and the Ontario Energy Board Act, 1998 and to make consequential amendments to other Acts.*

http://www.ontla.on.ca/documents/Bills/38_Parliament/Session1/b100.pdf

Presentation to Market Advisory Council, June 23 2004: *Electricity Restructuring Act – Bill 100.*

http://www.theimo.com/imowebpub/200406/mac_2004jun23_Bill100_Pres.pdf
