

## Notes from the 36<sup>th</sup> Meeting of the Market Pricing Working Group

Thursday March 1, 2007

8:30 a.m. – 1:00 p.m.

IESO Skymark Offices

**FINAL**

### Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	IVACO	Bull, Tabatha	IESO
Bell, Brian	Ontario Power Generation	Chase, Maia	IESO
Bellissimo, Vittoria	Ontario Power Authority	Chow, Ian	IESO
Bellavance, Erik	Hydro-Quebec Production	Finkbeiner, Darren	IESO
Cary, Rob (teleconference)	Sithe Power	Isber, Mike	IESO
Chung, Lam	Manitoba Hydro	Loughren, Chris	IESO
Cipolla, Jim	Northland Power	MacKenzie, John	IESO
Dade, Christine	Direct Energy	Penn, Richard	IESO
Duzy, Margaret	TransCanada Energy	Rivard, Brian (chair)	IESO
Hunt, Robert	Optimal Technologies	Savage, Jessica	IESO
Kerr, Paul	Coral Energy		
Leung, Linda	Ontario Power Generation		
Lung, Gene	Direct Energy		
Mancherjee, Kevin	Ontario Power Authority		
Olfert, Chris	NorthPoint Energy		
Quenneville, Alain	Abitibi Consolidated		
Smith, Paul	Dofasco		
Toma, Tony (teleconference)	Wescast		
Treble, Andi	NorthPoint Energy		
Yang, Bun Li	E4		

## **Item #1: Administration**

Brian Rivard (IESO) requested the following change to the agenda.

- Move agenda item #5 (Review of December 2006 MSP Report) to follow agenda item #2 (CAOR).
  
- a. **Review Notes from December 6, 2006 Meeting and Action Items**  
**Member Questions, Comments and Discussion**
  - Under the discussion of the Day-Ahead Market, is the IESO still considering separate stakeholder group meetings?  
IESO answer - yes
  - No further comments on minutes; IESO to post notes as final
  - Closed Action Item (AI) 35-1: IESO to issue final 2007 schedule of MPWG meetings. The IESO issued the schedule on December 7, 2006.
  - Re: Action Item 33-2, is this being discussed at Intertie Trading Standing Committee? IESO to follow-up.
  
- b. **Request to Re-Schedule June 7, 2007 MPWG Meeting**  
**Member Questions, Comments and Discussion**
  - Is the MPWG meeting tied to another stakeholder meeting?  
IESO answer: yes, there is a Stakeholder Advisory Committee meeting on June 6, 2007.
  - Is the identified scheduling conflict industry wide or member specific?  
IESO answer: the IESO understands that it is member specific.
  - Agreed that the June 7, 2007 MPWG would not be re-scheduled.
  
- c. **Update on Ramp Rate Multiplier Issue and Locational Marginal Pricing Study**  
Brian Rivard (IESO) provided the following updates:
  - **Ramp Rate Multiplier Issue**
    - (i) The AMPCO-requested OEB review of the market rule amendment implementing a 3x ramp rate has started. The IESO has intervened in the proceedings. There will be a technical conference on March 22-23 and, if necessary, hearings on March 29-30.
  - **Day-Ahead Market (DAM)**
    - (i) IESO has received survey responses from stakeholders. IESO is conducting one-on-one meetings with some stakeholders to better understand specific survey responses and issues. The IESO is also considering separate stakeholder group meetings to discuss issues, and also an “issues day” open to all stakeholders.
    - (ii) IESO concerns on resolving significant issues (e.g. buy-side participation, uniform pricing) remain and that not being able to address these issues could

frustrate development of a DAM. The IESO does not have a preferred DAM model and design.

#### **Member Questions, Comments and Discussion**

- The IESO should identify stakeholder meeting dates ASAP to avoid scheduling conflicts.
- In its market monitoring reports, the Market Surveillance Panel has identified several market inefficiencies. The IESO should consider quantifying the cost of those inefficiencies and how a DAM could address those inefficiencies.

#### **Item #2: Control Action Operating Reserve (CAOR)**

- Jessica Savage (IESO) gave a presentation on the scheduling and impacts of the use of Control Action Operating Reserve (refer to published presentation):  
[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG-20070301-CAOR.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20070301-CAOR.pdf)
- The Working Group was asked whether they agreed with the IESO proposed conclusions.

#### **Member Questions, Comments and Discussion**

- a. At what level of CAOR scheduling would the IESO have reliability concerns?  
IESO answer: Will follow-up. Refer to AI 36-1.
- b. Currently, importing of operating reserve can only occur from Quebec. However it does not occur very often due to the transmission tariff structure in Quebec i.e. there is no “operating reserve” tariff, just an “energy” tariff.
- c. Consideration of total imports is more relevant than net exports when explaining the increased CAOR scheduling on November 2006.
- d. The past IESO practice of reducing the operating reserve requirement when foreseeing an operating reserve shortfall was wrong, and should not be the basis for comparing the impact of CAOR. Rather, the comparison should be CAOR vs. not reducing the reserve requirement at all.
- e. Does the increased scheduling in the constrained schedule indicate a systemic lack of supply problem in one area of the province? Answer: no, the scheduling figures are for the entire province.
- f. There is about 700 MW of dispatchable loads in the Ontario market with approximately 500 MW active in the operating reserve markets on a daily basis.
- g. Increases in the operating reserve requirement are typically due to system configurations or outages that result in an increase in the single largest contingency event.
- h. Why has the Market Surveillance Panel (MSP) asked the Market Assessment Unit (MAU) to monitor the CAOR usage?  
MAU answer: the MSP has concern over reliability impacts.

- i. While CAOR is not viewed as a significant pricing issue at this time, the reliability and market impacts of CAOR scheduling need to be continually assessed e.g. CAOR being scheduled instead of higher priced market offers. The presence of CAOR is effectively a price cap on operating reserve offers from market participants.
- j. The IESO should be vigilant on monitoring the reliability, dispatch and market impacts of CAOR. It may also be inhibiting demand response.

**Next steps:**

- IESO to continue to monitor CAOR reliability, market and dispatch impacts. As CAOR scheduling is most significant in freshet, the IESO will report back to MPWG on CAOR scheduling and impacts after the 2007 freshet season.

**Item #3: Operating Reserve Initiatives**

- John MacKenzie (IESO) gave a presentation on identified operating reserve initiatives (refer to published presentation):  
[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG-20070301-ORI.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20070301-ORI.pdf)

**Member Questions, Comments and Discussion**

- a. The IESO should address the following issues as part of the identified initiatives:
  - Is there a FERC policy on buying/selling operating reserve across market boundaries?
  - What resources are actually used when the IESO activates operating reserve?
  - What will be the market sector impacts of allowing dispatchable loads to provide synchronized operating reserve?
  - How and to what extent are Shared Activation of Reserve and Regional Reserve Sharing scheduled and/or used?
  - Does dispatchable load participation in Ontario Power Authority demand response programs affect dispatchable load participation in operating reserve markets?
- b. The MPWG is the appropriate stakeholder forum for these initiatives as the initiatives all have pricing implications.  
IESO response: the Technical Panel has a wider representation (consumers, financial community, natural gas markets) than the MPWG. Even so, consultation with the MPWG may be appropriate given the MPWG expertise on pricing issues analysis.
- c. In the draft stakeholder plan for these initiatives, the IESO should identify the information and analysis requirements identified by the Technical Panel and the MPWG.

**Next steps:**

- IESO to publish draft stakeholder plan for stakeholder review and comment.

#### **Item #4: Transmission Rights Market**

- Tabatha Bull (IESO) gave a presentation on the Transmission Rights Market and Clearing Account (refer to published presentation):  
[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG-20070301-TR.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20070301-TR.pdf)

#### **Member Questions, Comments and Discussion**

- a. Are all available transmission rights (TR) sold?  
IESO response: yes.
- b. When is the IESO intending to initiate the identified review of the TR market?  
IESO response: The timing of the start of review has not been determined.
- c. Where does the money come from that is used to pay out the TRs?  
IESO response: Money comes from auction revenue paid by TR purchasers and from congestion rents paid by exporters, importers and Ontario consumers. There is a low correlation between market participant importing and exporting at any given point in time and the owners of TRs for that point of time.
- d. Does Lake Erie circulation loop flows have an impact on intertie congestion, TR payouts and congestion rents?  
IESO response: Yes. Lake Erie loop flow can increase intertie congestion, especially when there is already an outage or derating on an intertie.
- e. Does the IESO intend to continue increasing the amount of TRs to be auctioned?  
IESO response: Yes. Those assessments are ongoing as normal part of operating the TR market. That analysis is being conducted assuming that the TR clearing account surplus pay-outs associated to the Ramp Rate Multiplier will be paid out. The limit for TRs for a given intertie is the Transmission Transfer Capability for that intertie.

#### **Item #5: Review of December 2006 Market Surveillance Panel Report**

- Richard Penn (IESO) presented a summary of the Market Surveillance Panel (MSP) Market Monitoring Report published in December 2006 (refer to published presentation):  
[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG-20070301-MSP-report-review.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20070301-MSP-report-review.pdf)

#### **Member Questions, Comments and Discussion**

- a. Do other electricity market and system operators use peak or average demand forecasts?  
IESO response: will investigate. Refer to AI 36-2.
- b. Are the large number of exports in February 2007 and their impact on HOEP of concern? Is the HOEP too low and causing inefficient exporting?  
IESO response: The MSP is concerned and has repeatedly identified inefficient exports resulting from the HOEP being lower than the locational cost of supplying exports.

- c. The seams issues (e.g. different times when bids and offers locked in) between Ontario and New York remain a concern.  
IESO response: the IESO is investigating with the Inter-Jurisdictional Traders Subcommittee the possibility of allowing unrestricted bid and offer changes up to 1-hour before the dispatch hour. However, the intertie transaction failure charges do provide an economic driver for market participants to remove scheduled imports and exports that are found to be no longer economical after the bid window closes.
- d. Giving the Richview shadow price more prominence may provide better locational price signals, especially in times of system and market stress.  
IESO response: it is the experience and judgement of the IESO that market participants do not respond to the Richview shadow price.
- e. Consumers can participate in OPA demand response programs and be dispatchable in the IESO-administered markets. However, consumers are not allowed to have the same MW capacity in the OPA demand response programs and be dispatchable in the IESO-administered markets at the same time.
- f. The difference between pre-dispatch prices and real-time prices is still a problem. The market would benefit from a true real-time price forecast three hours ahead of real-time.  
IESO response: the IESO is investigating real-time price forecasting methodologies.
- g. What is the cost of the identified inefficiencies? Reducing these costs could be justification for addressing these inefficiencies.  
IESO response: the MSP is aware of this argument but believes costing these inefficiencies is very difficult e.g. what is the value of consumption?

#### **Item #6: Future MPWG Discussions on Market Efficiencies and Business Case Requirements**

- The IESO handed out a draft proposal (refer to published proposal):  
[http://www.ieso.ca/imoweb/pubs/consult/mep2/MP\\_WG-20070301-MSP-market-efficiencies.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070301-MSP-market-efficiencies.pdf)
- The IESO proposed and the members agreed that there would be no discussion at this meeting, but that the IESO would arrange a conference call for the week of March 19-23 to discuss the proposal.

#### **Item #7: Other Business – January 2007 Pricing Events**

- Ian Chow (IESO) presented the January 2007 pricing events report (refer to published presentation):  
[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG-20070301-Pricing-Events.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20070301-Pricing-Events.pdf)

#### **Member Questions, Comments and Discussion**

- a. Additional criteria for pricing events should include:

- activation of market demand response programs such as TDRP, EDRP, ELRP;
- Unplanned contingencies and operating reserve activations.
- b. Members also requested that situations where Ontario Power Authority demand response programs are triggered should also be included. However it was noted that the strike prices for these programs are confidential and not available to the IESO. So the IESO is not able to identify when such programs are triggered.
- c. Additional information on system and market conditions for identified pricing events would be helpful in understanding the events.
- d. Information presented to the MPWG on events where the IESO implemented an emergency control action should include a timeline of market and physical conditions and IESO communications to the marketplace on the emergency.
- e. The IESO proposed that it would no longer include as criteria for a pricing event hours where the hourly market uplift exceeded the HOEP, as this situation has not occurred for over two year. No member disagreed with the IESO proposal.
- f. The report is very useful.

### 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 3<sup>rd</sup> 2006 meeting.  
**Status:** open.
- AI 33-2: IESO to advise MPWG why intertie nodal shadow prices are not included in the shadow price analysis.  
**Status:** open. IESO to follow-up to determine if this is being discussed at Inter-Jurisdictional Traders Committee.  
**Status:** open
- AI 34-5: IESO to report back at December MPWG meeting on peak vs average efficiencies and price impact analysis.  
**Status:** open. Only “gross inefficiencies” analysis presented and discussed at December 2006 meeting.
- AI 35-1: IESO to issue final 2007 schedule of MPWG meetings.  
**Status:** Closed. IESO issued 2007 schedule 7 Dec 06.
- AI 36-1: IESO to determine at what level of scheduling of Control Action Operating Reserve would the IESO have reliability concerns.  
**Status:** open.
- AI 36-2: Do other electricity market and system operators use peak or average demand forecasts?  
**Status:** open.