

Market Pricing Working Group Meeting #52



Notes of Meeting – DRAFT

Date held: October 29, 2008	Time held: 9:00 a.m. to 2:00 p.m.	Location held: DoubleTree Hotel Dixon Rd., Toronto, Ontario
---------------------------------------	---	--

Invited/Attended:	Company name:	Attendance Status: (A)ttended; (R)egrets; (S)ubstitute
Bell, Brian	Ontario Power Generation	A
Cary, Rob	Sithe Global	A
Chase, Maia	IESO	A
Degelman, Cara	Abitibi Bowater	A
Doyle, Robert	IESO	A
Finkbeiner, Darren	IESO	A
Fleming, Ted	Ontario Power Authority	A
Greenberg, Jessica	IESO	A
Harwood, Shane	Sithe Global	A (teleconference)
Hassan, Fred	ERA/PWU	A
Hunt, Robert	Hunt Management Services	A
Hunter, Kelly	Manitoba Hydro	A (teleconference)
Kerr, Paul	Shell Energy	A (teleconference)
Kuntz, Margaret	TransCanada Energy	A
Lam, Tim	IESO	A
LaPierre, Dan	Brookfield Power	A (teleconference)
Leung, Linda	Ontario Power Generation	A
Loughren, Chris	Bruce Power	A
MacKenzie, John	IESO	A
Maria, Gamal	IESO	A
Matsugu, Darren	IESO	A
Olmstead, Derek	IESO	A
Pakela, Gregory	DTE Energy Trading	A
Peterson, David	Ontario Power Generation	A
Rivard, Brian (chair)	IESO	A
Singh, Diljeet	IESO	A
Tintnor, John	Aquilon Power	A
Wang, Maggie	Ontario Power Authority	A
Wu, Lawrence	TEAM Ltd.	A

Invited/Attended:	Company name:	Attendance Status: (A)ttended; (R)egrets; (S)ubstitute
Yang, Bun Li	E4	A
Scribe: John MacKenzie, IESO. Please report any corrections, additions or deletions to these notes to the following e-mail address: iesomarketpricingworkinggroup@ieso.ca		

All meeting material is available on the IESO web site at:

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

Item 1 - Administration

a) Review of Agenda

Although no changes were made to the agenda, members identified the following concerns.

- Members identified concerns with respect to commissioning generation impacting market prices recently. The sudden forced outage of a large commissioning generation facility resulted in increased market prices that impacted market exports. More transparency in regards to commissioning activities would help market participants manage the risk associated with the higher probability of forced outages of commissioning facilities. It was also noted that improved coordination would have some benefit e.g. not scheduling commissioning activities at times of expected surplus baseload generation. The IESO agreed to investigate these concerns and report back to the Working Group.
- The current market rule amendment issue MR-00338 – Economic Dispatch of Linked Wheels is considering a form locational pricing for linked wheel transactions. This work should be coordinated with the MPWG Issue #40 – Locational pricing for Intertie Transactions.

b) Review of Notes from MPWG Meeting #51, August 19th, 2008

Members Questions, Comments and Discussion

None

Next Steps

IESO to post notes as final.

c) Review of Action Items

A generator requested that action item 51-1 be amended to include a review of the impact of the Ontario Power Authority DR3 program on the operating reserve markets. Refer to list of action items at the end of these notes.

d) Updates

Brian Rivard (IESO) provided updates on the following issues and initiatives:

- Stakeholder Advisory Committee meeting on October 30th, 2008, where the following issues will be discussed:
 - prioritization of market design change studies
 - the decision criteria for changes where efficiency gains and wealth re-allocations would result;
 - near-time price formulation issues; and
 - dispatch issues (SE-61)
- As proposed at the last MPWG meeting, the IESO will not be proceeding with further work of Issue #39 – Inter-market Trading of Operating Reserve. This issue will remain on hold until the MISO operating reserve market has reached a ‘steady state’.
- High level design of the Enhanced Day-Ahead Commitment initiative is proceeding.
- The IESO is continuing to study the Energy Forward Market.

Members Questions, Comments and Discussion

None

Item 2: Issue #9: Peak vs. Average Pre-Dispatch Demand Forecast

Tim Lam (IESO) presented information related to action item AI 50-1, specifically an assessment of the impact of the government ‘off-coal’ program. Refer to documents published on IESO web site at the following links:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Issue_9-Off_Coal_Analysis.pdf
http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Presentation-Issue9-Off-Coal-Analysis.pdf

Members Questions, Comments and Discussion

1. A consultant representing generators questioned the apparent different curves for on-peak and off-peak periods which implied that in off-peak hours there would be higher prices for the low demand levels than would be seen for comparable demand levels in on-peak periods. The IESO and other members responded that the lower levels of supply typically offered in off-peak periods would lead to the observed pricing outcomes.
2. The IESO re-iterated that the supply curves were only developed to investigate price elasticity and that the curves should not be considered representative of future supply conditions, offer strategies, re-negotiated OPA supply contracts.
3. The IESO confirmed that it had assumed a constant adder of \$20/MW for coal fired generation. A consultant representing generators suggested that an increasing adder should be used such that over time the offered price of coal-fired generation approached the offer price of natural gas-fired generation.

4. A generator suggested that the IESO should poll consumers regarding the off-coal analysis as it was consumers who requested the analysis. The IESO agreed to follow-up with consumers.

Next Steps

1. IESO to follow-up with consumers on the off-coal analysis results.

Brian Rivard (IESO) led a discussion of the decision criteria public policy issue: improved market efficiency and wealth re-allocation. Refer to documents published on IESO web site at the following links:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Peak_Avg_CBA_decision_criteria.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Townley_Paper.pdf

Members Questions, Comments and Discussion

1. Members questioned what decisions were going to be made by whom in regards to the decision criteria public policy issue and the Peak vs. Average Pre-Dispatch Demand Forecast issue. The IESO responded that while an IESO Board decision is not required for the Peak vs. Average Pre-Dispatch Demand Forecast issue, the IESO expects that IESO senior management will, by December 17th, 2008, decide on the Peak vs. Average Pre-Dispatch Demand Forecast issue and potentially on the general decision criteria public policy issue. The IESO acknowledged that the latter decision may be referred to the IESO Board and that the Ontario Energy Board (OEB) is likely the final arbiter for such a decision.
2. A member noted that the Ontario electricity industry was very broad with many decision makers. The IESO using decision criteria as proposed, in isolation, could result in inconsistent decisions within the industry. The IESO, OEB and OPA should develop contextual framework for market evolution, supported by government policy, as decision making on an issue by issue basis without such a contextual framework is very difficult.
3. A generator suggested that there are other potential efficiency gains from a move to average demand forecast in pre-dispatch that were not part of the cost-benefit analysis, such as reduced surplus baseload generation, improved signals for generator self-commitment decisions.
4. Another generator suggested that using the average demand forecast in off-peak hours could be supportable, for the expected market efficiency gains and surplus baseload generation benefits.

Next Steps

1. Members requested to provide written comments on the decision criteria public policy issue by November 13th, 2008.
2. Further discussion of the decision criteria public policy issue scheduled as follows: December 2nd MPWG, December 3rd Stakeholder Advisory Committee.

Item 3: Issue #13 – Control Action Operating Reserve

Diljeet Singh (IESO) presented information on the Control Action Operating Reserve (CAOR) issue and options. Refer to documents published on IESO web site at the following links:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item3_Issue13-CAOR_Presentation.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item3_Issue13-CAOR_Issue_Paper.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item3_Issue13-CAOR_Options.pdf

Members Questions, Comments and Discussion

1. A generator suggested that the recent change removing CAOR entirely from pre-dispatch could have 'overkill' given the proposed option of including CAOR as 30-minute operating reserve only in pre-dispatch. The IESO responded that the maintaining the full amount of CAOR (800 MW) in real-time as 10-minute reserve and only as 30-minute reserve in pre-dispatch would have require complex changes to the dispatch scheduling optimization algorithm. The changes to pre-dispatch were required to address the pressing issue of recallable exports. Several members strongly suggested that the IESO should have explained more completely the reasons for the recent change at the time the change was discussed with stakeholders.
2. Several members questioned what would be the base case for the study: pre or post the recent change removing CAOR entirely from pre-dispatch. It was agreed that the base case would be the status quo (i.e. no CAOR in pre-dispatch), but that the IESO would assess the market impact(s) of removing CAOR entirely from pre-dispatch.
3. A generator requested the IESO to identify the NERC/NPCC policy that required the IESO to make exports recallable when CAOR was scheduled in pre-dispatch as 10-minute reserve.
4. Members suggested the following elements be part of the study:
 - Market efficiency and reliability impacts should be the decision criteria rather than frequency of CAOR scheduling; and
 - Pricing CAOR at its 'societal worth'.

Next Steps

- IESO to develop study work plan and stakeholder engagement plan for discussion at next MPWG meeting.

Item 4: Issue #40: Locational Marginal Pricing for Intertie Transactions

Tim Lam (IESO) presented the stakeholder comments on this issue as well as the IESO proposal that this issue be placed on hold; to be revisited as an option in IESO's investigation of a more efficient uniform price in 2009. Refer to documents published on IESO web site at the following links:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item4_I40-Cover_Memo.pdf
http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item4_Issue_40-BrucePower_Comments.pdf
http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item4_Issue_40-SitheCardinal%20_Comments.pdf
http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item4_Issue_40-OPG_Comments.pdf

Members Questions, Comments and Discussion

1. There was no opposition expressed to the IESO proposal.

Next Steps

1. IESO to change status of Issue #40 as 'on hold', and include locational pricing for intertie transactions as an option in the investigation of a more efficient uniform price.

Item 5: Issue #7 – Intertie Transactions Setting Real-Time Market Prices

Brian Rivard (IESO) led the discussion on this issue, options and proposed next steps. Refer to document published on IESO web site at the following link:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Issue7-Intertie_Transactions_Set_Price-Presentation.pdf

Members Questions, Comments and Discussion

1. Generators suggested that this issue is still outstanding for the following reasons:
 - a. Future supply changes may result in a real-time supply curve with a large gap between baseload and natural gas-fired supply and very volatile real-time prices. Intertie transactions could fill that gap and reduce price volatility.
 - b. The 'principle' that resources dispatchable in real-time should only be allowed to set real-time price should be reviewed. Other electricity markets do not follow that principle exclusively.
2. A consultant representing generators noted that often the physical flow of intertie transactions does not match the contract path. He suggested that it was then possible for an intertie transaction that was not actually flowing into or out of Ontario to set the Ontario real-time price.
3. Members identified that the Western Climate initiative (WCI) may also be a significant factor e.g. WCI may result in import transactions having a price adder to reflect the fuel mix of the source jurisdiction. More information is required on the potential impact of the WCI.

Next Steps

1. IESO to provide information regarding the impact of WCI at next MPWG meeting.

Item 6: Issue #4: Ramp Rate in Real-Time Unconstrained Sequence

Derek Olmstead (IESO) presented results of further analysis of the impact of the change to 3x ramp rate in the real-time unconstrained sequence. Refer to the documents published on the IESO public web site at the following locations:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item6-Issue4-Analysis_of_Ramp_Rate_Impacts.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Presentation-Issue4-Ramp_Rate_Analysis.pdf

Members Questions, Comments and Discussion

1. A generator suggested that market participants have 'hedge deals' for many intertie transactions and as a result the expected export efficiency impacts may be affected. He also suggested that assuming business behaviours as evidence of 'market problems' is flawed i.e. transactions, which viewed without the knowledge of associated 'hedge deals' could lead to incorrect conclusions regarding the market efficiency of such transactions
- 2.

Next Steps

1. IESO to present econometric analysis of the impact of the change to 3x ramp rate in the real-time unconstrained sequence at the February or April meeting of the MPWG in 2009..

Item 7: Prioritization of Market Design Change Studies

John MacKenzie led a discussion of the proposed model for the IESO establishing priorities of market design changes. Refer to the document published on the IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item7_MPWG_2009_Priorities.pdf

Members Questions, Comments and Discussion

1. Can stakeholders provide feedback on the weightings assigned to the proposed criteria?
IESO response: yes
2. The Technical Panel also establishes priorities for market rule amendment issues. That process and the one proposed under this model need to be coordinated.
3. The sustainable electricity service criteria should be expanded/clarified to include explicit government policy statements and direction.
4. The Market Surveillance Panel identified issue of eliminating constrained-off payments should be added to the list of issues.
5. Market evolution is not an end in itself, but rather a means to achieve a desired end state.
6. The reliability and market efficiency criteria should have equal weight, as both are equally important in the 'study-planning' time frame. It was acknowledged that in real-time, reliability takes priority over market efficiency.

7. Surplus baseload generation should be added to the list of issues.

Next Steps

1. Members were requested to provide written comments on the proposed model by November 13th, 2008.

Item 8: Operating Reserve and Market Schedule Policy and Practices Review

Jessica Greenberg presented a proposal for an IESO review of operating reserve and market schedule policy and practices. Refer to the document published on the IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-OR-Presentation.pdf

Members Questions, Comments and Discussion

1. Members had questions regarding the definition of surplus baseload generation (SBG) and the steps taken to manage such situations.
IESO response: SBG occurs when market demands are so low that normal dispatch of supply resources cannot address. Failed export transactions are a frequent contributor to incidents of SBG. The IESO has to frequently curtail import transactions to address SBG. SBG events are communicated to the market as 'over-generation' alerts and/or by means of very low market prices. SBG is expected to increase under the future supply proposed in the IPSP.
2. It was agreed that further information on SBG and associated issues is required.
3. The IESO clarified that one-time dispatch was an IESO manual process.
4. The impact of any changes to operating reserve activations and one-time dispatch need to consider the impact on automatic generation control requirements.

Item 9: Other Business

a) **Members Issues**

- None identified.

b) **Review of August and September 2008 Pricing Events**

Derek Olmstead (IESO) presented a summary of pricing events for August and September 2008. Refer to document published on IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-August-September_2008_Pricing_Events.pdf

Members Questions, Comments and Discussion

1. The IESO noted that:
 - a. it is investigating a different, more meaningful measure for price volatility;
 - b. the Market Surveillance Panel no longer monitors for and investigates hours when market uplifts being greater than HOEP, but rather has developed threshold levels for daily CMSC and IOG payments. The IESO shall adopt the same measures in future pricing event reports.
 - c. Additional information on the OPA DR3 program is available on the OPA web site:
2. A generator expressed concern regarding the lack of transparency in the OPA DR3 program and suggested that transparent integration of the DR3 program into the real-time market is necessary.

c) **Forward Agenda**

Refer to document published on IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20081029-Item9c_Forward_Agenda.pdf

Members Questions, Comments and Discussion

None.

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 44-2	23 Aug 07	IESO to provide the following information regarding administrative pricing: refresher on current market rules and practices, data and summary of administrative pricing events and causes, IESO work programs in place to address the causes.	Open. Target Completion Date: Q2 of 2009.	
AI 47-2	7 Feb 08	IESO to investigate feasibility of providing stakeholders with pre-dispatch and forecast real-time domestic supply cushion.	Open Target Completion Date: Q4 of 2008	IESO implementing publication of supply cushion data.
AI 49-1	16 May 08	IESO to determine what parts of the service level agreement between the IESO and OPA related to DR 3 program could be made public.	Open. Target completion date: To be determined	
AI 50-1	5 Jun 08	With respect to Issue #9, the IESO undertook to provide the following information and data: <ul style="list-style-type: none"> Hourly HOEP impacts; Assessment of the impact of the government 'off-coal' program Assessment of the conditions under which the IESO has historically purchased emergency energy and whether such conditions may be more likely if there was a change to using average demand forecast in pre-dispatch. 	Closed.	Refer to agenda item 2.

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 51-1	19 Aug 08	<p>In the spring of 2009, the Working Group to review:</p> <ul style="list-style-type: none"> • whether OPA DR program transparency and reporting meets stakeholder needs; and • impact of OPA DR3 program on operating reserve markets. 	<p>Open</p> <p>Target completion date: Q2 2009</p>	<p>Refer to agenda item 1(c).</p>