




**IESO Stakeholder
Advisory Committee –
Market Evolution**

**LDC Sector Input
May 24, 2006**



LDC Market Evolution Vision

- The current market is a hybrid mixture of competitive market forces and traditional central planning price caps and regulated price regimes
- Strongly support a number of aspects of the IESO's "pure" market vision but caution that the evolution to that vision must be based on a pragmatic approach that addresses key market issues and "gets the design right"
- Emphasis on a stable, predictable, transparent transition
- Near term focus on the process of how we move forward rather than just end-state market design

Ontario Market Environment

- Supply adequacy is a continuing concern - Generators indicate need for long term contracts to obtain financing
- Supply pricing is a hybrid mixture of price caps, fixed price contracts and spot market pricing
- Retail pricing is a hybrid mixture of regulated price regime and spot market pricing
- Price signals and transparency are less than adequate
- Concerns about the price competitiveness of Ontario industry
- Lack of Alignment with CDM initiatives
- Pending Provincial Government Off-Coal Program to replace 6500 MW of supply
- Pending OPA Integrated Power System Plan to deal with long term supply adequacy
- Lack of Alignment Amongst Market Visions

LDC Market Evolution Goals

- Market Stability
- Economic Dispatch
- Predictable and stable supply
- Predictable and transparent pricing (limited exposure to price volatility)
- Maintain consumer relationship (LDC is primary contact with customers)
- Protection of consumer interests
- Promote conservation culture / demand response
- Environmental Stewardship
- Competitiveness of Ontario industry
- Sensitive & Adaptable to Political Realities

KEY Market Design Criteria

- Settlement Process – Real Time Market versus Day-Ahead Market
- Operating Reserves – Demand Response supplement
- Relevance of Forward Markets – Multiple Buyers & Sellers – Enhance liquidity and reduce volatility
- Market Power Mitigation – Structural Change versus Price Cap regime versus LSE's
- Transmission Congestion Mgt. - Locational Marginal Pricing versus Socialization of Costs
- Target Supply Mix – Proportion of Real -Time versus Day-Ahead versus Bi-Lateral Contracting versus Baseload Regulated

KEY Market Design Criteria

- Role of Demand Response – Compliment to DAM, CDM supportive, Hedge against Market Power
- Public Confidence & Credibility – Market changes must minimize disruption and produce predictable and equitable outcomes to be “saleable” to end consumers
- Does Baseload Supply require a special approach ?
- Evolutionary Approach – is transitional change feasible or is a “Big Bang” approach required ?

KEY LDC Concerns

- Regulatory & Legislative uncertainty
- Supply Adequacy and Reliability - especially in constrained areas
- Pace and volume of market changes
- Lack of understanding of the importance of the change process
- Supply side market power
- Consumer confusion over electricity pricing & comparison to Retailer offerings
- Complexity of the wholesale and retail settlement process

KEY LDC Concerns

- Current market supply side price caps and fixed price contracts do not produce appropriate investment signals
- Effective Forward Energy Market needed to address Capacity requirements
- Challenge to evolve from central-planning market model to free-market model while ensuring supply adequacy
- Hybrid transmission model based on socialized “public good” investment decisions has merit. Mitigates against NIMBY reaction to Locational Marginal Pricing investment model

KEY LDC Concerns

- Unaddressed opportunity to promote Demand Response through aggregation of DR
- Current retail market regulated prices do not influence appropriate customer behaviour
- There are extensive financial, social, ecological and cultural aspects of energy consumption and these are obscured.

Load Serving Entities

- Load Serving Entities are key to addressing supply market power concerns
- LSE's can enhance price predictability & transparency while dampening volatility
- A key concern for the LSE model is risk management
- Counterparty creditworthiness may limit number of potential LSE's
- LSE's can function effectively in conjunction with current supply auction model paying their load based share of capacity reserve obligation

Load Serving Entities

- LSE model should not be allowed to distort consumer decisions regarding competitive Retail Suppliers nor support for the Retail Market
- LSE options are varied and could include a percentage of provincial default supply or a geographic area

In Summary

- Need a Clear and Unified vision
- Move forward with development of a market vision that reflects a pragmatic and realistic approach to the various challenges facing the current hybrid market e.g. “Art of the Possible”
- Proceed with enhancements such as Load Serving Entities, a Day Ahead Market and other forward market enhancements that focus on both the process of evolution as well as the end-state market design
- Approach must reflect Political Realities