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To: Stakeholder Advisory Committee

Date: September 5, 2006

Subject: Study of Potential Introduction of Locational Marginal Pricing - Status

Information Item

As the IESO begins work on a day-ahead market design, the fundamental design question of how prices will be calculated needs to be addressed. The IESO shall be addressing this question beginning with a pricing study that examines whether market pricing should be changed to better reflect locational considerations. We will examine the various forms of locational marginal pricing or LMP for the following reasons:

- stakeholder interest – SAC motion to complete a LMP study,
- renewed government interest in regional pricing,
- increasing congestion management settlement credit complexities, and
- a recommendation in the latest market surveillance panel report to introduce LMP.

The goal of the study is to examine possible models for locational pricing in Ontario and identify market impacts of these different models. The study results including stakeholder responses will be included in the pricing model options for the day-ahead market design and recommendation to the Board as to what course of action is best for the evolution of the market.

The stakeholder engagement methods to be employed in the stakeholder plan will be a combination of a working group, stakeholder advisory committee session and web-based postings.

The Market Pricing Working Group (MPWG) will be the main stakeholder forum for this study. The proposed scope and schedule of the study was introduced to MPWG at their August 4 meeting. At the next MPWG meeting the scope of the study including the basis of the analysis will be finalized. Subsequent meetings will review and recommend LMP models to be presented to the Stakeholder Advisory Committee.