

Background

On May 5th, 2008, the IESO posted a preliminary assessment of 3 options. Option 2 was recommended based on cost benefit analysis. This option consisted of all the elements of Option 1 (an enhanced day ahead commitment process) plus an energy forward market (EFM) as described in the current market rules.

At a general stakeholder meeting on May 15th, the IESO presented its proposal. Following that meeting, in discussions between the IESO and the SAC, it was agreed that the IESO should investigate an EFM design co-ordinated with an existing exchange to see if synergies existed, and report back to the SAC.

Some stakeholders have indicated that support for EFM implementation is stronger if the design is based on an existing exchange platform and if prudentials could be co-ordinated. The IESO committed to work with stakeholders to explore design possibilities, with a goal of providing a recommendation about next steps by the August 20th meeting of the SAC.

EFM Technical Support Group

A Technical Support Group (TSG) was established, with membership from interested stakeholder groups. The objectives of the TSG are:

- To review and discuss the Option 2 EFM design (IESO auction/financial swap)
- To explore alternate EFM design possibilities (external exchange)
- To provide a submission to the SAC identifying next steps for EFM development

TSG Meetings

At the meeting on July 29th, stakeholders were asked if they did, or did not, want to proceed with the Option 2 EFM. They could not definitively answer Yes or No. One stakeholder said that UDAM is still their first choice. If UDAM is still “on the table”, then EFM is not desired. If UDAM is not a possibility, then at least part of the TSG believe that some kind of EFM is needed to further the evolution of the market.

Stakeholders noted that any EFM needs to fit with future market structure, and some felt they could not commit to a design until there is some understanding of the direction of market structure changes. Liquidity of the EFM is the key concern. Some of the group felt that more information is required on other EFM options aside from Option 2 or the exchange EFM design discussed on July 29th. At least one stakeholder feels that the exchange EFM option is preferred for evolving the market.

Follow the link below to view the minutes of the TSG meetings and additional stakeholder feedback.
http://www.ieso.ca/imoweb/consult/consult_se21-efm.asp

Next Steps

The IESO agreed to provide a comparison of possible EFM options to the TSG, including counterparty risk under each option. The list below is not exhaustive, but is representative of the range of possibilities. The options compared are:

1. Exchange financial swap, bid/offer matching, cleared by exchange.
2. Bilateral financial swap, bid/offer matching.
3. Exchange physical contract, bid/offer matching, cleared by exchange, joint venture with IESO.
4. Bilateral physical contract, bid/offer matching.
5. IESO financial swap (Option 2), market clearing price through auction, cleared by IESO.
6. IESO bilateral physical contract, bid/offer matching.
7. IESO physical contract, market clearing price through auction, cleared by IESO.

The TSG will review and discuss this comparison at its next meeting in early September, listing advantages and disadvantages of the alternatives from the point of view of each stakeholder group. This review should establish if there is a favoured overall option, considering feedback from all stakeholders.

The IESO will require further understanding of:

- market rule changes that may be required with any EFM
- efficiencies and costs
- impact on market participants
- prudential implications
- how to ensure liquidity of the EFM
- what the IESO role should be
- how the IESO can help the market evolve

The IESO will present an update for the EFM to the SAC and the IESO Board of Directors in late fall 2008.