

## IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: August 26, 2009

Subject: **Interaction of Guarantees and Supply Contracts (SE-81)**

Information Item

### Background

At the June 3, 2009 meeting of the Stakeholder Advisory Committee, members heard from Mr. Craig Martin of TransCanada regarding a concern with respect to the interaction of EDAC production cost guarantees and CES contracts, i.e. the potential lowering of the real-time price by permitting generators to lower their offers between day-ahead and real-time. The comments were followed by a letter to the IESO Board elaborating further on that concern. This letter can be found in the IESO web site at:

[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item7\\_TransCanada-letter.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item7_TransCanada-letter.pdf).

The response to this letter from the IESO Board Chair can be found at:

[http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item7\\_IESO\\_Response\\_to\\_TransCanada-letter.pdf](http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20090603-Item7_IESO_Response_to_TransCanada-letter.pdf)

Consequently, the IESO engaged the OPA and members of the generator community in discussions to develop a better understanding of the nature of the concern raised. A meeting was held on July 10, 2009 with TransCanada and other generators mentioned in TransCanada's letter. The issue was also discussed at the July 21, 2009 meeting of the Technical Panel. Notes from those discussions and associated materials are posted under SE-81: Interaction of Guarantees and Supply Contracts.

### Assessment

The IESO is of the view that:

- EDAC provides the incentives for generators to offer at cost, which will alleviate the existing over-commitment problem under DACP.
- Costs may change between day-ahead and real-time. To obtain an efficient real-time schedule, real-time offers should reflect real-time marginal costs.
- Independent of CES contracts, generators with EDAC schedules may be incented to offer into the wholesale market at below real-time marginal cost. The opportunity to profit at times by offering below marginal costs is a direct result of the Ontario market two schedule construct and, as such, is difficult to mitigate without introducing other unacceptable consequences.
- With respect to the impact of the interaction of EDAC price guarantee's and CES contracts on HOEP:

- It is not profit maximising for a generator with an EDAC schedule to always offer at \$0 (or less) in real-time. It is unclear why they would want to do so.
  - A generator's ability to influence HOEP is dependent on market conditions.
  - Materiality is very difficult to estimate, but is expected to be less significant than the interaction of DACP and CES contracts on HOEP in the current market.
- While we agree that the issue raised could result in some unintended inefficiency, in our judgement, it will not lead to a material impact on the expected net benefits attributed to the implementation of EDAC.
  - Two additional activities are underway and planned that have bearing on this matter;
    - The market rule changes associated with Interim Changes to Real-Time and Day-Ahead Generation Cost Guarantee Programs have been recommended by the Technical Panel to the IESO Board for approval at their September 11, 2009 meeting; and
    - The development of changes to real-time Generator Cost Guarantee's to better integrate with EDAC is planned to get underway in the fall of 2009 for implementation with EDAC.

The IESO has produced a more detailed assessment of this issue which is also posted under SE-81: Interaction of Guarantees and Supply Contracts  
[http://www.ieso.ca/imoweb/consult/consult\\_se81.asp](http://www.ieso.ca/imoweb/consult/consult_se81.asp)