

Advisory Committee Discussion – Day Ahead Commitment Process

November 28, 2005



Process to:

- improve reliability of imports in real time
- permit energy adequacy to be enhanced.

Fundamental components:

- Day-ahead Intertie Offer Guarantee to encourage importers to make arrangements in neighbouring day-ahead markets
- Day-ahead Generator Cost Guarantee to encourage Ontario generators to start when needed

- Ontario generators must offer by 11:00 a.m. EST day ahead if they intend to operate next day – including making known any energy limitations they may have.
- Importers can offer day ahead, but are not required to do so.
- Export bids will not be included in the process.
- Pre-dispatch sequence used iteratively over 4 hours to define imports that will receive day-ahead IOG, and domestic generators that will receive a cost guarantee.
- Charge will be levied to imports that received day-ahead IOG and fail to flow in real time, that will incent them to transact in neighbouring day-ahead markets.

Potential impact on the market and reliability (run it every day, or only when needed?)

- Loads are concerned about uplift implications
- Generators are concerned that over-commitment will lead to lower energy revenues. Generators very adamant that process should only be executed on days where reliability risk is identified.
- Traders have countered that declaration of whether process is “on” or not must be made sufficiently in advance to permit them to participate in neighbouring D/A markets. This would require IESO to make declaration of “on” or “off” two days ahead.
- IESO is uncomfortable with:
 - the level of reliability risk that the decision being made that much in advance would inject, (2 day ahead outlook often better than when get there), and,
 - different rules for different days – will it be effective when needed 4

Downward pressure on average prices due to:

- Reduced import failures
 - Less upward price volatility, thus lower energy price with everything else held equal
 - Provides increased price certainty for loads and exporters
- Over-commitment that can't be efficiently bid away
 - With many hours between day ahead process completion and real-time, over-commitment should be exposed and therefore allow mitigation of price-lowering effects

Upward pressure on uplift cost due to:

- Increased risk premium in day-ahead offers
- Over-commitment
 - Mitigation of this due to exposure of over-commitment in pre-dispatch runs.
- Uplift cost increase mitigated by avoiding high-priced imports during some extreme Supply shortage situations that should now be avoided.

- C. Changes to market design or philosophy
- D. Exports not included in DACP
- E. Inequities in treatment between imports and domestic generation
- F. Preferential treatment of energy limited resources
- G. DACP timeline
- H. Potential for Gaming

- IESO Board to entertain a motion from IESO staff requesting authority to proceed with this design at December 7th, 2005 meeting.
- Required Rule Amendments to accomplish this to be considered for approval at February 3rd, 2006 IESO Board meeting.
- Additional stakeholdering throughout next 6 months on systems changes, and procedure development.
- Implementation: June 1, 2006.