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**APPRO**  
ASSOCIATION OF  
POWER PRODUCERS  
OF ONTARIO

November 11, 2005

Mr. Dave Goulding  
President & CEO  
Independent Electricity System Operator  
655 Bay Street, Suite 410  
Toronto, ON M5G 2K4

Dear Mr. Goulding,

Please find attached APPRO's position on the Day-Ahead Commitment Process and Global Adequacy provisions.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Butters', written over a large, light-colored oval shape.

David Butters  
President

cc: Mr. Bruce Campbell



**APPRO**  
ASSOCIATION OF  
POWER PRODUCERS  
OF ONTARIO

## **APPRO Position on the Day-Ahead Commitment Process and Global Adequacy provisions.**

### **Situation**

APPRO members have been active participants in the DACP stakeholder process with a view to reaching a workable solution to reliability issues within a market context they could support, bearing in mind the need to address this challenging issue within a very short time frame. Our hope has been that this could be done in a way that respects the IESO's responsibilities, continues to encourage a working marketplace, and is administratively simple, not institutional or burdensome.

However, the steps proposed to be adopted in the DACP and in parallel proposals in respect of real time global adequacy in the name of reliability do not in our view meet these tests. And, additional changes that will discourage real time intertie trading (without the opportunity for day-ahead export scheduling) further compound the problem for generators who have invested in Ontario.

In fact, not only do these steps work against those tests in principle, they expand the IESO's abilities to manually intervene in market operations rather than providing the right market signals to drive participant behaviour to deliver reliability. Further, they do not ensure that Ontario-based generation is treated on par with external resources. This is a fundamental inequity Ontario's generators cannot accept.

### **APPRO's specific concerns**

Our concerns include the following:

- Under the proposed initiative, Importers will be offered a Day-Ahead Intertie Offer Guarantee that includes all cost and profits. On the other hand, Ontario generators are offered only a guarantee covering marginal fuel costs with no consideration for variable OM&A or profit.
  - It is our view that this initiative creates the conditions where the IESO has both the incentive and the opportunity to over-

- schedule imports and over-commit domestic resources during the day-ahead timeframe. Over scheduling of imports and the exclusion of exports from the DACP will result in reduced prices and/or reduced market share for Ontario-based generators, while protecting prices to importers through the day-ahead import offer guarantee. This may be politically appealing, but hardly encourages faith in a working marketplace in Ontario.
- The IESO seeks to gain the authority to constrain generating units on and off for purposes of Global Adequacy - effectively giving itself the option of taking temporary control of Ontario based generating facilities without notice or paying for that option in advance. This gives the IESO the responsibility for creating and exercising their own judgements regarding the value of these assets. This places the IESO in a position well beyond the role of neutral market operator.
    - This kind of discretionary power will make it harder to return to any market basis for new capacity investment. Again, this hardly encourages faith in a working marketplace in Ontario.
  - Changes proposed to the Market Guidelines outlining real time safe harbours for inertia trading will effectively discourage real time trading activities. Allowing only Day Ahead Importers to receive price guarantees and discouraging real time trading activities will result in reduced market share for Ontario generators and muted prices. Again this may have certain political appeal. Furthermore, while it will result in a reduction in revenue for Ontario-based generators, loads will be required to pay the increased uplift associated with these purchases. This is another market distortion.
  - The IESO has repeatedly advised market participants that the DACP is required *strictly to ensure short term reliability in Ontario*. However, this initiative is not utilized as a control action strictly when reliability is jeopardized. It is being utilized as a matter of course on a daily basis with a resulting transfer of wealth from Ontario generators to Importers. *This is wrongheaded if we believe in the efficacy of working markets, and is unsupportable by our members.*

### **The Bottom-line**

APPPrO and its member generators recognize the need for an expeditious solution. However, as it stands we cannot support this Day-ahead commitment initiative without substantial changes including all of the following:

1. Day-ahead and real time generator cost guarantees should allow for the recovery of all costs including incremental OM&A plus an allowance for profit.
2. As the DACP is an interim process, the associated market rules must have a sunset clause including an expiry date of November 1, 2006.

3. While it is proposed that the DACP should be undertaken on a daily basis, a day ahead IOG may not be appropriate or necessary on days where reliability is not in jeopardy.
4. The entire DACP must be subject to third party audit. The selection of the auditor should be subject to agreement by the IESO Stakeholder Advisory Committee. The Market Surveillance Panel, the IESO, and Market Participants should be the recipients of the auditors report.
5. With respect to the broader question of global adequacy now the subject of the IESO's proposed rule change, APPrO is of the view that the IESO should not have the authority to constrain units on for the purpose of global adequacy. If generators are not making their facilities available at times when required for reliability, then clearly the market signals are distorted and (as we pointed out in August) need to be corrected. The following actions are required for this correction:
  - a. The value of the right of the IESO to call on generator assets must be fully recognized by an up front payment to participating generators;
  - b. 12 times ramp rate should be replaced by 1 times ramp rate in the Dispatch System Optimizer. This will effectively remove an artificial and arbitrary distortion present in the IESO's market price, and
  - c. Intertie transactions should set clearing price. This will aid in ensuring the price of electricity reflects its true value and the underlying circumstance in the marketplace – such signals are fundamentally important in achieving real change in consumer behaviour as well, however painful that may be.

In conclusion, APPrO remains committed to working cooperatively with the IESO to arrive at the most effective solution to short term reliability issues in a way that balances the needs of the IESO, our members, and all market participants. We are convinced that an effective solution can also provide a firmer footing for progress toward a properly working marketplace and further market evolution.

However, the objective of the development of a comprehensive day-ahead market should not be forgotten. APPrO continues to generally support the development of a day-ahead market if it comes in the form of a cost effective mechanism for increasing liquidity and reducing dispatch and price volatility and we seek the IESO's assurance that the process of moving toward a comprehensive day-ahead market does not end with the currently proposed arrangements.