

# Summary of IESO Opinions on the 12X RR Options

Market Pricing Working Group  
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- Return to original philosophy of the market
- Simple change to IESO algorithm
- Would result in an increase in average prices
- Would result in a very responsive price to shortage conditions

- Generator Community
  - Myopic pricing provides the correct signals for allocative and dynamic efficiency
- Consumer Community
  - An increase in average prices is inappropriate because myopic pricing significantly overstates the value of energy
  - An increase in average prices rewards all forms of generation, peaking and baseload

- The basis of myopic pricing is the principle that generators offer strategically to influence dispatch which allows them to capture high prices and to avoid low prices. This is difficult to achieve in Ontario because:
  - The unconstrained price drives a wedge between dispatch cost and price signals received by generators
  - MIO dispatch is already addressing intertemporal concerns weakening the need for strategic bidding
  - Strategic bidding has the potential to undermine the effectiveness of CMSC payments

- The IESO believes
  - Myopic pricing overstates the value of resources relative to the actual costs of dispatch to meet expected conditions
    - The system is prepared for anticipated conditions through MIO dispatch
  - MIO is likely to be an enduring feature of Ontario's dispatch
  - Our goal should be to align dispatch costs with price

- Two supplemental payment schemes have been proposed
  - Dynamic calculation based on a positive difference between 1X and 12X
  - Cost based payment for directed output changes
- These payments would result in increased uplift costs to consumers, which can not be hedged

- Generators believe IESO dispatch results in costs that can not be incorporated into their offer prices
- Generators have asserted that having the market pay for output changes will provide the added incentive to address erratic dispatch
- Some consumers have asserted that retaining a ramp neutral energy price and a supplemental payment for ramp delivered may be appropriate

- Any side payments create a loss of efficiency and makes understanding behaviours and incentives difficult
- Ramp payments may not always be appropriate
  - A generator fails and receives a ramp payment as it is ramping down
- Would understate the actual cost of energy during high ramp periods muting already poor market signals

# Supplemental Payment for Ramp

- The IESO does not support the concept of supplementary payments as permanent features of our market design
- All producers of energy over the same interval should be paid the same price for that energy.
- It is reasonable and appropriate for price to signal ramp constraints
  - For example, high prices during morning ramp would indicate the challenge in supplying load in this period
- We are wary of creating additional side payments to certain energy producers that would result in an increase in uplift charges to consumers at the cost of an understatement of the value of energy at any particular time, and removal of volatility that should be present in a real-time pricing signal.
- Exposure to the full set of pricing signals under all supply/demand scenarios is a necessary to create the right investment signals for all forms of generation and consumption.

- MIO is already used in the dispatch algorithm
- MIO pricing would represent a positive step towards the principle of aligning price with dispatch cost
- Numerous design details to be determined
  - Impact on price depends on those decisions

- MIO is not well supported by the generator or consumer community
- Generators have experience with MIO only through dispatch and consumers have no experience with MIO
- Generators feel MIO would reduce the transparency of an already opaque market
- Generators have stated that dispatch advisories are inaccurate, causing unease with basing prices on the same data
- Generators concerned that prices would become a function of IESO demand forecast

- Impacts on Price
  - There is some discomfort about the uncertainty of prices under MIO
  - A limited set of simulations (12 days) have shown little change in average prices
    - Simulations are difficult to perform and of questionable value since the effect of any participant behaviour changes are not reflected
- Design of MIO pricing would require significant stakeholder work
  - MIO price method (Incremental, High Slice, Modified Incremental)?
  - Respect Unit Minimums?
  - Production Cost Guarantee?
  - Inputs to MIO calculation (i.e. load predictor)?
  - Price from 1<sup>st</sup> or 2<sup>nd</sup> Pass?

- IESO believes that MIO pricing with the following attributes is the best alternative:
  - Incremental price
  - Respect unit minimums
  - Production Cost Guarantee
- Would produce the most efficient outcomes
- A move towards price = dispatch
- Likely to be a part of the end-state market design



- Dispatch of Ontario resources is efficient due to the use of MIO in the unconstrained sequence
- It is questionable whether 12x RR is the highest priority issue. (Eg. Day ahead coordination may become critical with the future generation fleet)
- Replacement of DACP with a market mechanism should be a priority



- Generators have claimed 12X removes price spikes they rely upon for revenue to maintain existing ramping capability and incentives to invest in additional capability, and that this revenue cannot be earned through existing market payments
  - The IESO does not yet understand why these costs cannot be reflected in generators' offers



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## Status Quo – Addressing Other Priorities

- IESO believes that the 12x RR price and the existing constrained-on payment model could be continued as a temporary measure to allow the development of other necessary market evolution initiatives

- IESO
    - rejects 1X myopic at this stage of market evolution
    - prefers MIO that best aligns with actual dispatch
    - believes the status quo is an option because we can't understand why generators are not able to recover all costs through their bids
  - Supplementary payment is an option if
    - Dispatch costs can't reasonably be recovered through bids
- And
- If MIO detailed design will unreasonably delay progress on higher priority evolutionary initiatives