

Notes from the 28th Meeting of the Market Pricing Working Group

Friday April 21, 2006, 8:30 – 12:00

DRAFT

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	Ivaco Rolling Mills	Thoma, Tony	Wescast
Alpajaro, Peter	Bruce Power	Yang, Bunli	E4 Inc.
Bell, Brian	Ontario Power Generation		
Blechta, George	Falconbridge	Barr, Anne	IESO
Brown, David	OEB	Dieterle, Chris	IESO
Butters, Dave	APPrO	Morris, Elizabeth	IESO
Cary, Rob	Cardinal Power	Kozlik, Ken	IESO
Clark, Wayne	AMPCO	Loughren, Chris	IESO
Cipolla, Jim	Northland Power	Maria, Gamal	IESO
Duzy, Margaret	TransCanada Energy	Campbell, Bruce	IESO
Heaton, Randy	Ontario Power Generation	Rivard, Brian	IESO
Kerr, Paul	Coral Energy Canada	Travers, Scott	IESO
McCuaig, Paul	Powerex	Wilbur, Bill	IESO
Quenneville Alain	Abitibi	Katsuras, George	IESO

Item #1: Presentation of IESO opinions on 12X Ramp Rate issue

Ken Kozlik presented a summary of the paper, “IESO Opinions on the 12X Solution Options”. This paper had been sent to members prior to the meeting and is now posted on the web site. It was confirmed that there is unanimous dislike of the unconstrained MIO option among the generator community, while the consumer community remains undecided on that option. Generators remain convinced that 1X myopic is the most correct solution, while consumers are satisfied with the status quo. The idea of a supplemental payment for ramp along with no change to the pricing algorithm, while recognized as a temporary and second best alternative, may be acceptable to both groups.

The meeting ended earlier than expected and this allowed generators to have their own meeting to begin work on a paper to further explain, justify and quantify their solution option which involves a supplemental payment for ramp. Consumer representatives present took the opportunity to meet as well to discuss their position. There is an AMPCO Board meeting in late April at which an “official” position from AMPCO is expected to be determined.

The IESO requested that members who wish to do so should email the IESO with their opinions on the 12X ramp rate issue, by May 5, 2006. This will allow the IESO to prepare materials for the Stakeholder Advisory Committee meeting where this topic will be discussed, which is on May 24, 2006. Members were also encouraged to provide their thoughts on this issue to their representative on the Stakeholder Advisory Committee.

Next Meeting

The meeting scheduled for May 5, 2006 has been cancelled. The next scheduled meeting is Friday, June 2, 2006.

Stakeholder Feedback

- Does DAM preclude any of the options currently available to us?
- MIO becomes much less beneficial when a DAM exists
- Real time issues are unaffected by a DAM. The DAM options explored thus far in Ontario do nothing for real time issues. Although a DAM which does address these issues could be designed.

1X Myopic Pricing

- Is the unconstrained pricing a cornerstone of the Ontario market, is it an enduring feature?
- It's not proper to state that the problems on slide 5 that exist with 1X myopic are due to an unconstrained price and not specifically problems with a myopic algorithm.
- The 3 bullets on slide 4 identify the issues we need to address. These are not problems with myopic algorithms, but problems with an unconstrained price.
- Pricing should align with the actual dispatch process, not that dispatch costs should be aligned with price.

Ramp Supplementary Payments

- William Hogan believes that market signals rely upon shortage pricing¹. We have moved away from shortage pricing in Ontario. Care needs to be addressed when using his theories in a market with limited shortage pricing.

¹ A recent paper by Mr. Hogan discusses this further. It can be found at the following link: <http://www.ucei.berkeley.edu/POWER-06/06Papers/8Hogan.pdf>

- Some services (eg AGC) are appropriate to be removed from the commodity price. The principle that any side payments create a loss of efficiency may not be entirely correct.
- The world where price spikes are the efficient outcome is not the current market. The govt and OPA are taking the place of that market today. We must be careful to correct the market in this transition phase to the desired end state.
- If there was a well organized plan to get to the final state it would be easier to move through the transition phase we are currently in.
- The MPWG task is to improve the market and let the politicians worry about the political aspects of a competitive market.
- Operating Reserve can be thought of as a supplementary payment. A situation where people who would like to earn extra revenues could be online to earn revenue. OR is co-optimized, if a ramp payment can be co-optimized would the IESO still be against it?
- As long as we recognize the IESO is receiving ramp as a service, the question is, are people being appropriately compensated for that service?
- There is a difference between a supplementary payment and a payment for an ancillary service.