

Notes from 10th Meeting of the Market Pricing Working Group

Wednesday October 20, 2004, 08:30 – 12:00

Attendees:

| <u>Name</u> | <u>Company</u> | <u>Name</u> | <u>Company</u> |
|-----------------|--------------------------|-----------------------|--------------------|
| Bell, Brian | Ontario Power Generation | Vasquez, Noralyn | TransCanada Energy |
| Blechta, George | Falconbridge Limited | Wu, Lawrence | TEAM |
| Brown, David | Ontario Energy Board | Yang, Bunli | E4 |
| Cipolla, Jim | Northland Power Inc. | | |
| Coulbeck, Rob | Ontario Power Generation | | |
| Miles, Tony | Hydro One Networks | Haynes, Daryl | IMO MPWG Team |
| O'Connor, Sandy | TransAlta | Maria, Gamal | IMO MPWG Team |
| Simpson, Mark | Wescast Industries | Rivard, Brian | IMO MPWG Team |
| Snelson, Ken | AMPCO | Sergejewich, Peter | IMO MPWG Team |
| Soufi, Safouh | SMS Energy-Engineering | Wilbur, Bill | IMO MPWG Team |
| Stein, Victor | Ministry of Energy | Wright-Hilbig, Rhonda | IMO |

Item #1: Review of Action Items from October 1 Meeting

- § 2.1 – IMO staff continuing to examine methods to gain residential representation on the MPWG - Open
- § 3.5 – MPWG members requested to forward impacts of the pricing issues discussed at previous meeting – To be closed – Any further comments received can still incorporated. **Closed**
- § 8.1 – IMO Staff to verify energy shortage price result with existing CAOR energy offer and current algorithm. – Open
- § 9.1 – IMO Staff to request Andrew Hartshorn of LECG to attend next meeting to further discuss differences and economic theory between Day-Ahead and Real-Time markets. Done for this meeting – **Closed**.
- § 9.2 – IMO staff to create bar charts indicating timelines for work packages. Work plan timelines document emailed to WG on Oct 19. - **Closed**

Item #2: Pricing Issues for Discussion

- § Issue 8 – Systematic Differences Between the Day-Ahead and Real-Time Markets – Andrew Hartshorn of LECG led a discussion around the paper he produced on the topic. His paper indicates that, in general, design differences between the DA and RT markets will not affect price convergence between the markets as long as participants at the margin are able to adjust their bids freely in both markets. He also noted that all but two of the identified differences between the IMO’s markets are also present in other areas such as NYISO. The two exceptions are 12 times ramp and control action OR. It was agreed that the issue 08 document would be updated to reflect the ideas in Andrew’s paper and that the issue would be closed. Some concern regarding the ability of participants to bid freely in either market does remain, however this is a broader participation issue that cannot be addressed by this group. Any effect on this issue due to Bill 100 legislation or related regulations will be monitored under issue 26 (Integration of Competitive and Regulated Wholesale Prices).

Item #3 Temporal Issues

- § Gamal gave a presentation on the expected price impacts of the different MIO pricing options for different demand ramp scenarios. It was suggested that more detail as to how MIO works should be included, such as the interval weighting used to determine if MIO will make any dispatch adjustments. It was also suggested that a term other than “Production Cost Guarantee (PCG) should be used to describe the side payments that may be required due to MIO adjustments.

- § Also presented were some examples of data that is currently available to get some idea of MIO pricing. The HOEP price was compared to the Richview shadow price, which is calculated by the constrained algorithm that uses MIO. The differences between the calculations of these prices are significant and are the subject of several pricing issues and there is no intention to make a decision on the implementation of MIO pricing based on this data alone.
- § The use of the IMO's Sandbox environment for testing of MIO pricing was discussed. The proposal is to set up the constrained sequence to mimic the unconstrained sequence so as to avoid having to update the unconstrained sequence s/w with MIO. It was noted that any differences between constrained and unconstrained that cannot be eliminated for the testing must be identified and an effort made to quantify effect on the test results. It was also suggested that the analysis should include energy and operating reserve prices, CMSC payments, amount of energy "constrained" by MIO and the cost of the MIO "constraints." The IMO will attempt to set up the Sandbox testing and report back on progress.

Action 10.1 – IMO staff to arrange for use of the Sandbox environment for further MIO pricing testing.

Item #4 Control Action Issues

- § Brian provided updated statistics on the use of the existing Control Action Operating Reserve. Over the summer, the use of CAOR has declined dramatically. This was largely attributed to lower demand and increased resource availability, particularly increased hydroelectric generation due to a wet summer. In the spring, there had been concern that CAOR was being scheduled too often. It was felt that these results may suggest that one price for the entire year may not be the best solution and some form of seasonal pricing may be more appropriate.
- § Further analysis will be done to look at OR revenues and prices for the market-based OR. It was also suggested that the CAOR offer prices should maybe be based on the value of voltage reductions instead of on the frequency of scheduling.

Item #5 Next Meeting Friday, November 26, 2004, 8:30 – 12:00 at Skymark

It was decided to maintain the existing schedule of meetings for November, which are November 12 and 26, both Fridays. However, due to a conflict with an IMO Board of Directors meeting, the November 12th meeting has been cancelled.