
RECOMMENDATION FOR ISSUE 28

ADDITIONAL COMPENSATION UNDER ADMINISTRATIVE PRICING

Document #28-2

The IESO Market Pricing Working Group (MPWG) is a stakeholder forum established to discuss, analyze, and document concerns and issues related to the determination of prices in the IESO-administered markets, and to provide advice and recommendations on potential solutions to specific pricing issues.

Advice and recommendations of the Market Pricing Working Group as well as other materials developed in the course of the working group's deliberations are used as inputs into the IESO's broader stakeholdering process and to inform IESO decisions, including decisions of the IESO Board of Directors and IESO Technical Panel.

A. Background

Eligibility of dispatchable loads for additional compensation under administrative pricing (e.g. where administered prices extend beyond 48 intervals) is currently restricted to situations where a dispatchable load receives and follows IESO dispatch instructions which require running (load displacing) generation equipment connected to the dispatchable load facility. In this case, the dispatchable load may be eligible – subject to applicable materiality limits - for additional compensation in relation to the fuel or other variable costs for that generation.

IESO stakeholders have expressed interest in revisiting this restriction. For instance, the issue of additional compensation for loads has been recorded in the IESO Participant Issues Log (as issue #924 – January 21, 2004) and has been discussed in the IESO Market Pricing Working Group (August, December 2004).

In February 2005, the IESO Market Pricing Working Group reviewed a discussion paper prepared by IESO staff (attached along with this document and available at: http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2005Feb2_Iss28DiscussOptPaper.pdf) which addressed the issue of additional compensation for loads under administrative pricing and outlined the following three key questions for the working group's consideration:

- i. What are the circumstances in which dispatchable loads should and should not be eligible for additional compensation under administrative pricing?
- ii. Who should pay the costs of any additional compensation that may be provided to loads?
- iii. Should non-dispatchable entities be eligible for additional compensation?

To aid the Market Pricing Working Group in developing related recommendations, the discussion paper offered “strawman” options to each of these questions.

B. Options Considered

Options considered in view of the above questions are as follows, and are described in greater detail in the attached discussion paper:

- Question 1: “Dispatchable Loads Eligible”?
 - Option 1-1: Yes: where, as a result of following an IESO dispatch instruction to consume, the dispatchable load incurs a higher energy cost than it was willing to pay based on its bid price
 - Option 1-2: Only for load-displacement generation costs incurred (status quo)
- Question 2: “Who Pays”?
 - Option 2-1: Loads only
 - Option 2-2: Generators only
 - Option 2-3: Loads and Generators
- Question 3: “Non-Dispatchable Loads Eligible”?
 - Option 3-1: Non-dispatchable loads not eligible
 - Option 3-2: Yes, under circumstances analogous to those described in Option 1-1

C. Recommendations of the Market Pricing Working Group

The following recommendations are made in principle, and are subject to further consultation and consideration with respect to implementation details and feasibility.

1. **What are the circumstances in which dispatchable loads should and should not be eligible for additional compensation under administrative pricing?**

The working group recommends that dispatchable loads should be eligible for additional compensation under administrative pricing in a manner analogous to that currently afforded to dispatchable generators. Subject to materiality limits, dispatchable loads should be compensated for certain provable “out of pocket” costs (with their bid prices serving as a proxy for those costs), but should not be compensated for foregone opportunities. In circumstances where the market has been suspended and where, consequently, no bid is available to determine the eligible additional compensation amount, a historical bid benchmark should be used in proxy. This recommendation corresponds to option 1-1 outlined on page 6 of the attached discussion paper.

- **Impacts of Recommendation:**

- **Participant Impact:** Would entitle dispatchable loads to additional compensation under administrative pricing.
- **Market Impact:** Would effect greater symmetry in the treatment of dispatchable generators and dispatchable loads with respect to additional compensation.
- **IESO Impact:** Might require IT tools changes. Would require development of ongoing administrative, monitoring, and audit processes.
- **Other Impacts:** No expected impact on reliability or quality of service. Paying additional compensation to dispatchable loads would result in additional uplift payments.

- **Dissenting Views:**

2. Who should pay the costs of any additional compensation that may be provided to loads?

The working group recommends that additional compensation paid to dispatchable loads should be recovered from all other loads. This would be accomplished in a manner similar to that currently used to recover the costs of additional compensation paid to dispatchable generators. This recommendation corresponds to option 2-1 outlined on page 8 of the attached discussion paper.

While the rationale proposed in recommended option 2-1 is generally accepted by the Market Pricing Working Group, the rationale proposed for option 2-3 (“both loads and generators pay”) is also acknowledged to possess merit. However, the working group is generally of the view that option 2-3 should not be recommended at this time as it would introduce an undesirable degree of additional complexity onto market participants, and that it would be better suited for consideration within a broader discussion of market cost allocation.

- **Impacts of Recommendation:**
 - **Participant Impact:** Would result in additional uplift payments.
 - **Market Impact:** Would continue existing practice of allocating costs of additional compensation payments to loads.
 - **IESO Impact:** Might require change to settlement tools, might require change to settlement processes.
 - **Other Impacts:** No expected impact on reliability or quality of service.
- **Dissenting Views:**

3. Should non-dispatchable entities be eligible for additional compensation?

The working group recommends that only dispatchable entities should be eligible for additional compensation under administrative pricing. The rationale for this recommendation is outlined in option 3-1 on pages 8 and 9 of the attached discussion report.

In addition to this recommendation, several working group members suggest that it would be beneficial to investigate mechanisms that would enhance opportunities for demand response for non-dispatchable loads in the IESO-administered markets. In view of promoting broad-based participation in electricity markets, this is generally considered to be a reasonable and helpful suggestion.

- **Impacts of Recommendation:**
 - **Participant Impact:** Non-dispatchable entities continue to be ineligible for additional compensation under administrative pricing.
 - **Market Impact:** No expected impact as no changes proposed.
 - **IESO Impact:** No expected impact as no changes proposed.
 - **Other Impacts:** No expected impact on reliability or quality of service.
- **Dissenting Views:**