

## Notes from the 38<sup>th</sup> Meeting of the Market Pricing Working Group

Tuesday April 3, 2007

8:30 a.m. – 1:00 p.m.

IESO Skymark Offices

**FINAL**

### Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	IVACO Rolling Mills	Chase, Maia	IESO
Alpajaro, Peter	Bruce Power	Chow, Ian	IESO
Bell, Brian	Ontario Power Generation	Loughren, Chris	IESO
Bellavance, Erik	Hydro-Quebec Production	MacKenzie, John (chair)	IESO
Degelman, Cara	Abitibi Consolidated	Maria, Gamal	IESO
Dumais, Dan	Xstrata Nickel	Rivard, Brian	IESO
Forsyth, Dave	Bowater Canadian Forest Products	Savage, Jessica	IESO
Hunt, Robert	Optimal Technologies		
Kerr, Paul	Coral Energy		
Kuriychuk, Mike	Pathchoice Energy Consulting		
Leung, Linda	Ontario Power Generation		
Lung, Gene	Direct Energy		
McQuaig, Paul	Powerex		
O,Connor, Sandy	TransAlta		
Passi, Mark	Xstrata Nickel		
Viljakainen, Bert	Bowater Canadian Forest Products		
Yang, Bun Li	E4		

## **Item #1: Administration**

John MacKenzie advised the Working Group that Ken Kozlik is unable to attend the meeting due to his involvement with the ongoing OEB review of the market rule amendment MR-00331 – the 3x-ramp rate market rule.

### **a. Review Notes from March 1, 2007 Meeting (MPWG meeting #36)**

#### **Member Questions, Comments and Discussion**

- Members suggested that the timing of review and report back of Control Action Operating Reserve as noted in “Next Steps” under agenda item #2, while accurately portraying what was stated at the meeting, is too far in the future to allow for addressing any adverse impacts. It was agreed that a review after the 2007 freshet season would be more appropriate.

#### **Next steps:**

- IESO to revise meeting notes to indicate a review and report back on CAOR scheduling and impacts after the 2007 freshet season.
- Next steps:

### **b. Review Notes from March 19, 2007 Meeting (MPWG meeting #37)**

#### **Member Questions, Comments and Discussion**

- A member requested, and it was agreed, that Working Group review of these notes be deferred to the next meeting.

#### **Next steps:**

- Working Group review of these meeting notes to be on agenda of May 9, 2007 meeting.

### **c. Update on Ramp Rate Multiplier Issue and Locational Marginal Pricing Study**

John MacKenzie (IESO) provided the following updates:

#### **• Ramp Rate Multiplier Issue – OEB Review of MR-00331**

- (i) The technical conference scheduled for March 22-23 was cancelled. Public hearings were held on March 29-30. Final arguments are due this week and the OEB decision is expected by April 10, 2007.
- (ii) A member noted that the OEB communication regarding teleconferencing arrangements and the cancellation of the technical conference was not effective.

#### **• Day-Ahead Market (DAM)**

The IESO will be holding an open stakeholder session on the Day-Ahead Market on Wednesday April 11, 2007.

#### **• Operating Reserve Initiatives**

The IESO published a draft stakeholder plan (SE-37) for the operating reserve initiatives for review and comment. No stakeholder comments were received. The Working Group was asked to consider using these initiatives as “test cases” for the economic efficiencies analysis and business case requirements under consideration.

## Item #2: Economic Efficiencies and Business Case Requirements

- Brian Rivard (IESO) gave a presentation “Economic Efficiencies” (refer to published presentation and paper “Economic Concepts of Efficiencies”):  
[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG-20061206-Economic-Efficiencies.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061206-Economic-Efficiencies.pdf)  
[http://www.ieso.ca/imoweb/pubs/consult/mep/MP\\_WG-20061206-Paper-Economic-Concepts-of-Efficiency.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG-20061206-Paper-Economic-Concepts-of-Efficiency.pdf)
- The IESO clarified that the examples in the presentation were developed in 2006 and are intended solely to illustrate economic efficiency concepts. The examples are not a justification of the benefits of locational prices relative to uniform pricing.

### Member Questions, Comments and Discussion

- a. Members suggested, given that locational pricing in Ontario is not a realistic scenario at this time, more relevant or real-life examples would be helpful in understanding the economic efficiency concepts and impacts.
- b. Does the IESO agree with the Market Surveillance Panel assertion, as noted in their December 2006 Market Monitoring report, that the Ontario Power Authority demand management programs reduce the allocative efficiency of the Ontario electricity market. IESO response – yes.
- c. Questions were raised about the application of economic efficiencies of different market design fundamentals e.g. market clearing price vs. “what you bid is what you get”; smoothing hourly prices HOEP vs 5-minute MCP; generation vs transmission build options. The IESO suggested that such issues were beyond the scope of today’s discussion, but could be the subject of future Working Group discussion.
- d. Electricity market efficiency is not that relevant to industrial consumers as their processes and facilities are not geared to a 5-minute decision timeframe. Rather, the industrial consumer’s goal is maximizing asset utilization. Each sector has different drivers and there is a need to apply the applicable drivers to each sector.
- e. Sectors need to identify the economic impacts of market changes under consideration in order that a comprehensive economic efficiency analysis of those possible changes can be conducted.
- f. Increasing uplift charges are an indication of inefficiencies.
- g. In Example 2, is it possible that once uplifts are included, would Load B end up paying a price higher than what Load B valued electricity for? The IESO committed that it would provide a written response to this question.
- h. All market costs and revenues, including transmission rights auction revenues, payments and congestion rents need to be included in the efficiency analysis.
- i. With respect to dynamic efficiencies and drivers for new transmission or generation investment, the regulatory and political signals are also very important.

- j. It was suggested that there is little evidence that increasing market efficiencies has led to desired behaviours and new investment. Consumer costs have increased as a result of electricity deregulation with no new electricity infrastructure investment or consumer benefit.
- k. The definitions and analysis of efficiency need to be more holistic to capture the different impacts on different sectors in Ontario.
- l. Definition of efficiencies should incorporate “price” as price is the primary driver in any market.

**Next steps:**

- a. Presentation and discussion of IESO analysis of export market response to pricing changes at next Working Group meeting (May 9, 2007).
- b. Presentation and discussion of a Cost-Benefit Analysis paper written by Michael Trebilcock at a future Working Group meeting.
- c. Working Group members were requested to provide any additional comments on today’s discussion to IESO staff via e-mail.

**Item #3: Sector Meetings to Review Positions on Pricing Issues**

- John MacKenzie (IESO) led a review of the updated tracking document of pricing issues and initiatives, as well as the proposed schedule of sector meetings (refer to published documents):  
[http://www.ieso.ca/imoweb/pubs/consult/mep2/MP\\_WG-20070403-TPII-mar27.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070403-TPII-mar27.pdf)  
[http://www.ieso.ca/imoweb/pubs/consult/mep2/MP\\_WG-20070403-memo.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070403-memo.pdf)

**Member Questions, Comments and Discussion**

- a. Issue 007 Intertie Transactions setting Real-time Prices – The IESO was asked to confirm that at the MPWG meeting on October 6<sup>th</sup>, 2006 the Working Group agreed to defer further work on this issue until the DAM design work is completed (refer to Action item 38-1).
- b. Issue 009 Peak vs Average Demand Forecast – A member suggested that the gross inefficiencies analysis presented at the December 6<sup>th</sup>, 2006 meeting was very limited. The member took an action to discuss with IESO staff additional gross efficiencies analysis (refer to Action AI 38-2).
- c. Issue 030 Forecasting Real-Time Market Prices – It was suggested that the priority for this issue may no longer be “low” given that the Market Surveillance Panel is using the pre-dispatch price as a proxy for a real-time price forecast in the Panel’s proposed market power framework. It was also suggested that future work on this issue should include an assessment of the value of such a forecast and whether it is appropriate for the IESO to produce such a forecast.

- d. Issue 002 Publishing Nodal Data – the status of this issue should indicate that through the Interjurisdictional Trading Standing Committee, the IESO has agreed to publish intertie nodal prices.
- e. Members agreed to the following sector meeting schedule:
  - Consumers sector – April 12 morning
  - All other sectors – April 13 morning, April 17 afternoon.

**Next steps:**

- IESO to revise the tracking document and circulate it to Working Group members for the upcoming sector meetings.

**Item #4: Other Business**

**a. February 2007 Pricing Events**

- Ian Chow (IESO) presented the February 2007 pricing events report (refer to published presentation):  
[http://www.ieso.ca/imoweb/pubs/consult/mep2/MP\\_WG-20070403-February-Pricing-Events.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070403-February-Pricing-Events.pdf)

**Member Questions, Comments and Discussion**

- a. The following additional analysis and reporting were identified as being useful:
  - Examination and explanation of the interval-to-interval price changes at the top of the hour.
  - A statistical report on the number of operating reserve activations relative to previous months.
  - Summary of nodal prices.
  - Events when the hour-ahead pre-dispatch price was very different than the actual HOEP.

**b. MPWG Forward Agenda**

- John MacKenzie (IESO) presented the draft MPWG Forward Agenda April 2007 – March 2008 (refer to published document):  
[http://www.ieso.ca/imoweb/pubs/consult/mep2/MP\\_WG-20070403-Forward-Agenda.pdf](http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070403-Forward-Agenda.pdf)

**Member Questions, Comments and Discussion**

None.

## Action Items

- AI 33-1: IESO to include a review of the definition of allocative and dynamic efficiencies on agenda of future MPWG meeting – preferably the November 3<sup>rd</sup> 2006 meeting.  
**Status:** open.
- AI 33-2: IESO to advise MPWG why intertie nodal shadow prices are not included in the shadow price analysis.  
**Status:** open. IESO to follow-up to determine if this is being discussed at Inter-Jurisdictional Traders Committee.  
**Status:** open
- AI 34-5: IESO to report back at December MPWG meeting on peak vs average efficiencies and price impact analysis.  
**Status:** open. Only “gross inefficiencies” analysis presented and discussed at December 2006 meeting.
- AI 35-1: IESO to issue final 2007 schedule of MPWG meetings.  
**Status:** Closed. IESO issued 2007 schedule 7 Dec 06.
- AI 36-1: IESO to determine at what level of scheduling of Control Action Operating Reserve would the IESO have reliability concerns.  
**Status:** open.
- AI 36-2: Do other electricity market and system operators use peak or average demand forecasts?  
**Status:** open.
- AI 38-1: IESO to confirm that at the October 6<sup>th</sup>, 2006 meeting the Working Group agreed to defer further work on the issue of intertie transactions setting real-time price until the DAM design work is completed.  
**Status:** open.
- AI 38-2: OPG member to discuss with IESO staff additional gross efficiencies analysis on the peak vs average demand forecast issue.  
**Status:** open.