

Notes from the 42nd Meeting of the Market Pricing Working Group

Thursday June 7, 2007

8:30 a.m. – 2:00 p.m.

DoubleTree Hotel, Toronto

FINAL

Attendees:

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	Ivaco Rolling Mills	Brown, David	IESO
Alpajaro, Peter	Bruce Power	Kozlik, Ken (chair)	IESO
Bell, Brian	Ontario Power Generation	Loughren, Chris	IESO
Bellavance, Eric	Hydro-Quebec Production	MacKenzie, John	IESO
Bellissimo, Vittoria	Ontario Power Authority	Peerbocus, Nash	IESO
Cary, Rob	Consultant (representing Cardinal Power & Sithe Power)	Rivard, Brian	IESO
Duzy, Margaret	TransCanada Energy	Savage, Jessica	IESO
Ecelbarger, Carl	Hydro Quebec Energy Services		
Erickson, Tracy	Brookfield Power	Sivasundaram, Lavan	IESO
Hassan, Fred	ERA (Representing Power Workers Union)		
Heaton, Randy	Ontario Power Generation	Trebilcock, Michael	University of Toronto and Charles River Associates
Humphries, Mike	Zochem	Baziliauskas, Andy	Charles River Associates
Hunt, Robert	Optimal Technologies		
Hunter, Kelly (tele-conference)	Manitoba Hydro		
Kerr, Paul	Coral Energy		
Kuriychuk, Mike	Pathchoice Energy Consulting		
Lapierre, Dan	Brookfield Power		
Leung, Linda	Ontario Power Generation		
Lin, Jane	Greater Toronto Airport Authority		

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Lung, Gene	Direct Energy		
Mei, Sam	AMPCO		
Oberholster, Henry	Greater Toronto Airport Authority		
O'Connor, Sandy	TransAlta		
Rothman, Mitch	Navigant Consulting		
Scanlan, Darren	Ontario Financing Authority		
Selesse, Stephanie	Brookfield Power		
Tintor, John	Aquilon		
Toma, Tony	Wescast Industries		
Viljakainen, Bert	Bowater Canadian Forest Products		
Wu, Lawrence	TEAM Limited		
Yang, Bun Li	E4		

Item #1: Administration

- a. Review Draft Notes from May 9, 2007 meeting (MPWG #41)
Member Questions, Comments and Discussion
- None

Next steps:

- IESO to publish meeting notes as final.

b. Review Action Items

John MacKenzie (IESO) proposed that the action item 41-1 be closed citing the following published document:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-memo.pdf

Member Questions, Comments and Discussion

- None. Action item 41-1 closed.

Ken Kozlik (IESO) reported that the IESO had considered using the Consumer Forum as the means to have the market pricing fundamentals education sessions (refer to action item AI 41-2). However, in an effort to do Working Group team building, the IESO is proposing the education sessions be held in late August around a Working Group golf outing. The sessions would be held at a centrally located golf resort with hotel and meeting facilities. The tentative format for the event would be as follows:

- education session for the consumer sector on the first morning;
- golf tournament for all MPWG members in the afternoon;

- dinner for all MPWG members;
- education session for other sectors on the second morning.

In an effort to keep market uplift charges low, members would be responsible for their own travel and accommodation costs and golf green fees, while the IESO would pick-up the tab for dinner.

Member Questions, Comments and Discussion

- There was general support for this initiative.
- AI 41-2 closed.

Next steps:

- The IESO will investigate possible formats, locales and dates for the education sessions and golf, and will advise Working Group members.

c. Updates

John MacKenzie (IESO) provided the following update:

- **Ramp Rate Multiplier Issue (MR-00331)**
The stay of implementation of MR-00331 filed by AMPCO is still before the Divisional Court. IESO implementation of MR-00331 is on hold pending the Court decision on the request for stay of implementation.

Item #2: Overview of Cost-Benefit Analysis and its Application in Public Policy Decisions

Dr. Michael Trebilcock, assisted by Dr. Andy Baziliauskas, gave a presentation “Overview of Cost-Benefit Analysis and its Application in Public Policy Decisions” (refer to published paper and presentation):

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-Overview-of-Cost-Benefit-Analysis.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-CRA-Overview-of-Cost-Benefit-Analysis.pdf

Member Questions, Comments and Discussion

- a. It is important to establish the cost-benefit analysis structure and to use data rather than simple assertions.
- b. It is important to define (i) the conditions under which a cost-benefit analysis is required and (ii) the level of analytical rigour required. These determinations are important so that the effort expended to conduct the cost-benefit analysis is commensurate with the change under consideration. For example, if the dollar impact

of the change is large, a more rigorous analysis would be warranted. Also, if the benefits and costs are close, a more rigorous analysis would be warranted.

- c. Impacts that are asserted but not supported by facts should not be considered. There is literature and precedent that can be used to quantify impacts such as job loss and lack of investment. Quantifiable impacts that 'may' occur can be considered by using probabilities and cost estimates. It is incumbent on anyone making an assertion of an impact to provide the factual evidence to support that assertion.
- d. The dollar impacts of secondary or 'ripple' effects can be very subjective and typically cannot be quantified precisely. Therefore, it is appropriate that the cost-benefit analysis consider a range of the dollar impacts for those secondary or 'ripple' effects that can be demonstrated, by the person asserting that the effect should be considered, to be potentially significant.
- e. In the electricity sector, increases in producer surplus typically mean a reduction in consumer surplus. Measuring the consumer surplus requires knowledge of a consumer demand curve, which is difficult to determine with any accuracy. It is also recognized that a consumer short-term surplus function can be significantly different than the long-term surplus function.
- f. There is considerable international data on consumer electricity consumption movement in response to price. There can be considerable debate over valuations of producer and consumer surpluses and common agreement may not be achievable. 'Paralysis through analysis' can result if one tries to consider all the micro-economic factors that influence consumer response to electricity prices e.g. prices of other business inputs.
- g. With respect to political influence on the electricity sector, a cost-benefit analysis may impose some discipline on politicians. With a cost-benefit analysis and results, there may then be pressure that a political decision that runs counter to that cost-benefit analysis would need to be justified on some other basis. Using cost-benefit analysis techniques could help to identify all possible options. It is also recognized that a politically acceptable option may not be the optimal option from a cost-benefit analysis perspective.
- h. Considering and mitigating impacts on 'losers': options include asymmetric weighting of impacts on 'losers' or authority to provide transition compensation to 'losers'. Using market mechanisms to compensate 'losers' may undermine the market. It is preferred to use the tax system or government transfer systems for such compensation.
- i. Complimentary market initiatives, such as a day-ahead market, load serving entities and locational pricing, may be analysed individually and/or as a package. The latter may capture inter-dependencies of such initiatives.
- j. Incentives for achieving dynamic efficiencies may be best provided through effective regulatory regimes. Quantifying dynamic efficiency incentives and impacts, regulatory or otherwise, is difficult. Experience from other industries may provide insights.

- k. All the issues before the MPWG are steps along the way to some 'end-state' of the Ontario electricity sector. A cost-benefit analysis of that end-state should be undertaken. However, the end-state is not clear at this time due to political uncertainty and lack of stakeholder consensus on the 'end-state'.
- l. How is the impact on reliability to be included in a cost-benefit analysis? Would the use of cost-benefit analysis within the market ultimately lead to a regulated rate of return industry model?
- m. Even in a well-functioning electricity market where real-time and long-term consumer and supplier decisions are driven by market forces, there will still be a need for regulation and cost-benefit analysis related to some functions (e.g. transmission, distribution, rules governing the market).

Item #3a: Operating Reserve Initiatives Resulting from NPCC Changes – Draft Cost-Benefit Analysis of Initiative #2

Brian Rivard (IESO) made a presentation on the draft cost-benefit analysis for operating reserve initiative #2 – Reduce 10-minute Synchronized Operating Reserve Requirement due to changes in Regional Reserve Sharing Program (refer to published presentation and paper):

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-Cost-Benefit-Analysis-Operating-Reserve-Initiative-2.pdf

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-Cost-Benefit-Analysis-OR-Initiative-2.pdf

Member Questions, Comments and Discussion

- a. There are reasons for making market rule changes other than improving market economic efficiencies e.g. fairness, reliability.
- b. Reliability impacts, even if small, should be quantified and monetized so that those impacts can be compared to other monetized impacts. While the change in the level of reliability may be very small, there can be a significant potential cost to reducing reliability.
IESO response: agree that reliability impacts need to be quantified and monetized
- c. Who determines when the energy associated with Regional Reserve Sharing is available and deliverable?
IESO response: each ISO makes the determination regarding its own situation.
- d. The IESO should revise the analysis paper to clarify that historical data was used.
- e. Is the penalty for a Control Performance Standard violation punitive or to ensure that the control area is reliable?

IESO response: the latter, as a control area can eliminate the application of penalty through good reliability performance in responding to a contingency.

- f. Would the frequency of recallable exports be increased as a result of this initiative?

IESO response: no. This initiative may reduce the frequency of recallable exports due to the reduced domestic operating reserve requirement.

- g. Treatment of shortage prices within the analysis and simulations needs to be consistent with actual practice.

- h. A member questioned the value of the reduction in production costs.

IESO response: this value is generated by the simulation model using the offer and bid curves.

- i. Assertion that NPCC is changing the RRS program as a result of the increased efficiencies of markets other than Ontario within NPCC. Ontario is lagging behind other market in making significant efficiency improvements such as capacity markets, day-ahead markets etc.

- j. Some members believed that as the cost-benefit analysis for this initiative is the prototype for future changes, more rigour in the analysis is required. Suggested changes included examining uncertainties or a range of key factors. Other members, while acknowledging that the analysis exercise was of great value, did not agree that additional refinement was necessary as the potential efficiency gains are small. Other factors are more important and should be examined: e.g. aggravating inefficient exports, impact on reliability, dynamic efficiencies.

Next steps:

- IESO to revise the cost-benefit analysis based on the discussion e.g. quantifying and monetizing reliability impact. The IESO intends to publish the revised analysis along with the draft market rule amendment proposal MR-00332-R00 for stakeholder review and written comment.

Item #3b: Operating Reserve Initiatives Resulting from NPCC Changes – Update on Schedule

Jessica Savage (IESO) presented an update on the operating reserve initiatives schedule (refer to published document:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-Schedule-for-NPCC-OR-Initiatives.pdf

Member Questions, Comments and Discussion

None.

Item #4: Other Business

- a. March 2007 Pricing Events

Lavan Sivasundaram (IESO) presented the April 2007 pricing events report (refer to published presentation):

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20070607-April-Pricing-Events.pdf

Member Questions, Comments and Discussion

- None.

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-20070607-Forward-Agenda.pdf

The Working Group was advised that a member had asked that the Working Group review Issue 30 (Forecasting Real-Time Prices) at the July 19th, 2007 meeting.

Member Questions, Comments and Discussion

None.

c. Next Meeting – July 19, 2007

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 3rd 2006 meeting.**
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 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. New York ISO uses peak demand forecast. IESO is following up with other markets in the north-east. Information on the demand forecasts used for price determination is also required.
- **AI 38-2: OPG member to discuss with IESO staff additional gross efficiencies analysis on the peak vs average demand forecast issue.**

Status: open.

- **AI 41-1: IESO to provide MPWG with on-peak and off-peak export elasticity analysis results.**

Status: Closed. Refer to discussion under agenda item 1(b).

- **AI 41-2: IESO to investigate using the Consumers Forum as the means to have consumer sector education sessions rather than having MPWG sector specific sessions.**

Status: Closed. Refer to discussion under agenda item 1(b).