

**Notes from the 43rd Meeting of the Market Pricing Working Group**  
**Thursday July 19, 2007 8:30 a.m. – 1:30 p.m.**  
**DoubleTree Hotel, Toronto**  
**FINAL**

**Attendees:**

<u>Name</u>	<u>Company</u>	<u>Name</u>	<u>Company</u>
Abdelnour, Francois	IVACO	Chase, Maia	IESO
Alpajaro, Peter	Bruce Power	Finkbeiner, Darren	IESO
Bell, Brian	Ontario Power Generation	Greenberg, Jessica	IESO
Bellissimo, Vittoria	Ontario Power Authority	He, Andy	IESO
Bellavance, Eric	Hydro-Quebec Production	Kozlik, Ken	IESO
Cary, Rob	Sithe Power; Cardinal Power	Loughren, Chris	IESO
Duzy, Margaret	TransCanada Energy	MacKenzie, John	IESO
Hunt, Robert	Optimal Technologies	Maria, Gamal	IESO
Hunter, Kelly	Manitoba Hydro	Rivard, Brian	IESO
Kerr, Paul	Coral Energy	Robitaille, Dave	IESO
Kuriychuk, Mike	Pathchoice Energy Consulting	Savage, Jessica	IESO
Leung, Linda	Ontario Power Generation	Sivasundaram, Lavan	IESO
Lung, Gene	Direct Energy		
Tintnor, John	Aquilon		
Wu, Lawrence	TEAM Limited		
Yang, Bun Li	E4		

**Item #1: Administration**

John MacKenzie (IESO) advised the Working Group that there is an addition to agenda item 6 “Other Business”. A stakeholder requested that the IESO provide administrative pricing event information as part of the Monthly Pricing Events reporting.

Please refer to documents for each agenda item for this meeting, published on the IESO public web-site at the following location:

[http://www.ieso.ca/imoweb/consult/mep\\_mp.asp](http://www.ieso.ca/imoweb/consult/mep_mp.asp).

a. **Review Notes from June 7, 2007 Meeting**  
**Member Questions, Comments and Discussion**

- None

**Next steps**

- IESO to post notes as final

b. **Review of Action Items**

No updates.

c. **Updates**

John MacKenzie (IESO) provided the following updates:

- **IESO Staffing**
  - (i) Chris Loughren (IESO) is leaving the IESO to join Bruce Power in mid-August.
  - (ii) Jessica Greenberg (IESO), who recently joined the IESO Market Evolution department, was introduced.
- **MPWG Golf Event**

There was limited interest in the MPWG golf event proposed for August 23, 2007. Ken Kozlik (IESO) will be contacting Working Group members who did express an interest to determine if more informal arrangements can be made. The IESO will try to organize a more comprehensive MPWG team-building event for the spring of 2008.
- **Ramp Rate Multiplier Issue**

The Ontario Divisional Court denied the AMPCO request for a stay of implementation of MR-00331-R00 (the 3x ramp rate rule). The IESO is examining implementation timing options and expects to make an announcement within a week or two.

**Member Questions, Comments and Discussion**

- As part of the implementation timing options, is the IESO considering implementing MR-00331 after the high demand days of the summer?  
IESO Response: will communicate the implementation date within a week or two.

**Item #2: Operating Reserve Initiatives Resulting from NPCC Changes**  
Brian Rivard (IESO) gave a presentation summarizing stakeholder comments received on the draft cost-benefit analysis for Operating Reserve initiative #2 (MR-00332) and the initial IESO response.

The IESO initial response to the stakeholder comments included the following points:

- The IESO appreciated the stakeholder contributions to furthering the sectors' understanding of cost-benefit analysis and how it can be applied within the market rule amendment process. The IESO is eager to continue to work with participants in this effort.
- While supporting the need for the declaration of clear decision criteria, there is no formal IESO position on establishing the Kaldor-Hicks criterion as that criteria at this time. The IESO will continue to hone its application of cost-benefit analysis by applying this tool on upcoming rule amendments. As the IESO works through these analyses, it will continue to consult with market participants and seek advice from IESO senior management and the IESO Board member regarding the appropriate decision criteria.
- The IESO will publish its response to the reliability impact and analysis issues raised.

#### Member Questions, Comments and Discussion

- a. Within the cost-benefit analysis framework, would the IESO “weight” options differently where one option impacted energy price while another option impacted only market uplifts, given that energy price changes would likely have greater impact on efficiencies?

IESO response: would need an example to better understand the scenario being proposed. Agreed to take this discussion off-line and report back to the full Working Group (refer to Action Item 43-2).

- b. Does the IESO look upon the results of a cost-benefit analysis as the definitive decision rule for going forward on proposals? The discussion and decision of the merits of a proposal should not stop once “the math is done”.

IESO response: a cost-benefit analysis is one of the considerations to be used by the IESO in making a decision.

- c. The need for more rigour in the reliability impact analysis was re-stated e.g. what is “adverse reliability event”? The IESO “reliability experts” need to declare, with rationale, why they support the NPCC analysis and its application to Ontario. The delay in NPCC approval of Regional Reserve Sharing (RRS) is troubling, given that other reliability councils have had similar schemes for a long time. Why is RRS now “OK” within NPCC?
- d. This change may entrench the current situation where investment decisions are driven by central planning rather than by market forces.

**IESO response: does not see the entrenchment.**

- e. **The unavailability of RRS may increase given the increase to 100 MW. That increased unavailability could result in operating reserve price spikes that may attract or retain reserve suppliers.**

**Next steps:**

- **Review of stakeholder comments and initial IESO response at Technical Panel on July 24<sup>th</sup>, 2007.**
- **IESO to publish written response to stakeholder comments, plus any additional analysis, and IESO recommendation by August 15<sup>th</sup> 2007.**
- **MPWG review and discussion of the August 15<sup>th</sup> published materials at meeting on August 23<sup>rd</sup>, 2007.**
- **Technical Panel review and discussion of the August 15<sup>th</sup> published materials at meeting on August 28<sup>th</sup>, 2007. Panel expected to be asked to vote to recommend MR-00332.**

### **Item #3: Peak vs. Average Pre-Dispatch Forecast – Efficiency Analysis Proposal**

**John MacKenzie (IESO) gave a presentation on the proposal for the efficiency analysis to be conducted for the peak vs. average issue.**

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

- a. **The impact of pre-dispatch schedules and prices derived on the basis of an average demand forecast should be evaluated. Market programs such as Spare Generation On-Line use pre-dispatch schedules as the basis for participant commitment decisions. There may be other market and non-market programs that could be affected.**

**IESO response: agree that such impacts be considered, but caution that it may be possible to only do so qualitatively.**

- b. **A larger data set should be considered to ensure a broad range of market and system conditions are tested. There may be outlier data points where the efficiency impacts are significant and influence the total results. Examples of a more complete data set were: one week from each month, ensuring hot summer week and cold winter included; or an entire year.**

**IESO: response: will consider expanding the data to be examined.**

- c. It was questioned whether the proposed use of the real-time unconstrained (RTU) sequence simulator with a 1x ramp rate would provide an accurate assessment of real-time constrained (RTC) sequence results. Would it be possible to include at least the east-west tie transmission constraint and/or a multi-interval optimization in the RTU simulations in order to improve the extrapolation to RTC results?

IESO response: the dispatches produced by the RTC sequence will be used only to identify changes to CMSC payments. The proposed solution is adequate considering that these payments and the changes to them are of second order importance.

- d. The IESO should consider mitigation measures to address any adverse reliability identified for the use of pre-dispatch average demand forecast rather than not proceeding with using average.

**Next steps:**

- The IESO will distribute the notes from this meeting as soon as possible so that attendees can verify their comments as recorded and to determine if additional comments needed.
- Working Group members asked to provide any additional comment in writing by August 15<sup>th</sup>, 2007. The IESO will also advise all Working Group members of this request for written comments.
- Follow-up discussion at Working Group meeting on August 23<sup>rd</sup>, 2007.

**Item #4: Review of Outstanding Issues – Issue 5, 11, 30, 33**

John MacKenzie (IESO) gave a presentation on the proposal for closing four outstanding issues.

**Member Questions, Comments and Discussion – Issue 5: Simultaneous Use of Ramping Generation Units for Energy and Operating Reserve**

- a. Members not aware of the existing treatment of operating reserve and energy in the RTU sequence or the market rule that provides the authority for that treatment. The IESO should ensure that such treatment is actively reviewed and supported by stakeholders. Requested the IESO to provide further background information and rationale on the RTU treatment (refer to action item 43-1).

**Member Questions, Comments and Discussion – Issue 11: Comparing Treatment of Self-Scheduling Resources in Pre-Dispatch and Real-Time**

- a. General support for closing this issue given the following:
- the IESO continues to monitor and work with self-scheduling generators on reducing forecasts vs. actual production;

- the Market Surveillance Panel also monitors and reports on the self-scheduling generator performance.

#### Member Questions, Comments and Discussion – Issue 30: Forecast of Real-Time Price

- a. Some members suggested options (e.g. multi-interval optimized price advisories) to meet the real-time price forecast needs for time-limited demand response. Other members suggested that such forecasts were best left to the participant to develop, just as any commercial enterprise forecasts market conditions and takes appropriate action. And others suggested the best day-ahead price forecast would be from a comprehensive day-ahead market that resulted in financial positions within a two-settlement system.
- b. The IESO should recognize that some of its pre-dispatch prices and schedules are driving participant decisions (e.g. hour-ahead dispatchable loads, spare generation on-line) and strive to improve those price and schedule determinations.
- c. The IESO was asked whether or not the IESO believes it is appropriate for the IESO to provide price forecasts.

IESO Response: exploring the possibility; initiative underway to evaluate day-ahead HOEP price forecasts.

- d. What inputs and methodology is the IESO considering in its determination of day-ahead HOEP forecasts?

IESO response: Econometric model that uses a time series of actual prices and structural variables relating market supply-demand conditions.

#### Member Questions, Comments and Discussion – Issue 33: Rules for Determining Prices in Times of Shortage

- a. The IESO should consider changes whereby transmission contingencies are included in the market schedule.

#### Next steps:

- The IESO will distribute the notes from this meeting as soon as possible so that attendees can verify their comments as recorded and to determine if additional comments needed.
- Working Group members asked to provide any additional comment in writing by August 15<sup>th</sup>, 2007. The IESO will also advise all Working Group members of this request for written comments.
- Follow-up discussion at Working Group meeting on August 23<sup>rd</sup>, 2007.

**Item #5: Market Surveillance Panel Market Monitoring Report**

This item was removed from the agenda as the Report has not been published yet.

**Item #6: Other Business**

**a. May and June 2007 Pricing Event Reports**

Lavan Sivasundaram (IESO) presented the May 2007 and June 2007 pricing event reports. In response to questions from members, the IESO provided the following points of clarification:

- a. The IESO reduced the operating reserve requirement for all the reserve activations.
- b. The reported number of hours of reserve activations corresponds to the number of activations.
- c. The IESO is not aware of some aspects of OPA demand response programs and does not plan on reporting on those programs.
- d. The IESO will investigate the feasibility of providing a communication timeline as part of its reporting on emergencies.

Darren Finkbeiner (IESO) provided a verbal review of the events of June 12<sup>th</sup>, 2007. In response to questions from members, the IESO provided the following points of clarification:

- a. The phase shifters on the Ontario-Michigan interface were not used.
- b. Market Assessment and Compliance Division is investigating whether the IESO was compliant with the market rules in regards to publishing System Status Reports (SSRs) during the events of June 12, 2007.
- c. There were some exceptions requested and granted for the 5% voltage reduction e.g. hospitals.
- d. The IESO is preparing a report on the events of June 12<sup>th</sup> and the report will be published. Recommendations in the report are expected to include (i) a review of policies and procedures regarding operating reserve activations; (ii) review of impact of weather forecast on load forecasting and (iii) timing and quality of SSRs published.
- e. Separating the RTC and RTU operating reserve requirements is within the scope of the review of operating reserve policies and practices.
- f. The Market Assessment Unit does provide monthly reports to the Market Surveillance Panel on events such as June 12<sup>th</sup>, 2007. It is not clear whether such reports can be made public.

**b. MPWG Forward Agenda**

John MacKenzie (IESO) presented the MPWG Forward Agenda July 2007- June 2008.

### Member Questions, Comments and Discussion

None

#### c. Request for Administrative Pricing Event Information

John MacKenzie (IESO) distributed a request from a stakeholder for administrative pricing event information to be included in the monthly pricing event reports.

### Member Questions, Comments and Discussion

- a. There was general support for this information to be provided, if only as a means to increase stakeholder understanding of market activities and results.

IESO Response: will investigate feasibility of providing this information and whether it is already provide, to some extent, in published reports.

- d. Next meeting: Thursday August 23<sup>rd</sup>, 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 3<sup>rd</sup> 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 43-1: IESO to provide further background information and rationale on the treatment of operating reserve and energy in the RTU sequence.  
Status: open.**
- **AI 43-2: IESO to follow-up with MPWG member regarding “weighting” of options that impact price versus uplifts within a cost-benefit analysis. Refer to discussion under agenda item #2 paragraph (a).**