

Market Pricing Working Group Meeting #50



Notes of Meeting – FINAL

Date held: June 5, 2008	Time held: 9:00 a.m. to 12:00 p.m.	Location held: Toronto Congress Centre, Dixon Rd., Toronto, Ontario
Invited/Attended:	Company name:	Attendance Status: (A)ttended; (R)egrets; (S)ubstitute
Abdelnour, Francois	IVACO Rolling Mills	A
Bellissimo, Vittoria	Ontario Power Authority	A
Cary, Rob	Sithe Power	A
Chase, Maia	IESO	A
Doyle, Robert	IESO	A
Dumais, Dan	Xstrata Nickel	A
Forsyth, Dave	Geridau Ameristeel	A
Hannan, Usman	IESO	A
Huber, Devon	IESO	A
Hunt, Robert	Hunt Management Associates	A
Kerr, Paul	Shell Energy	A (teleconference)
Leung, Linda	Ontario Power Generation	A
Loughren, Chris	Bruce Power	A
Lung, Gene	Direct Energy	A
MacKenzie, John	IESO	A
Maria, Gamal	IESO	A
Matsugu, Darren	Ontario Ministry of Energy	A
McCuaig, Paul	Powerex	A
Mei, Sam	AMPCO	a
Olmstead, Derek	IESO	A
Penn, Richard	IESO	A
Rivard, Brian (chair)	IESO	A
Savage, Jessica	IESO	A
Singh, Diljeet	IESO	A
Thoma, Tony	Wecast	A
Wu, Lawrence	TEAM ltd.	A
Yang, Bun Li	E4	A
Scribe: John MacKenzie, IESO. Please report any corrections, additions or deletions to these notes to the following e-mail address: iesomarketpricingworkinggroup@ieso.ca		

All meeting material is available on the IESO web site at:
http://www.ieso.ca/imoweb/consult/mep_mp.asp

Item 1 - Administration

a) Review of Agenda

- The ordering of agenda items 2 (Issue #9 peak vs. Average) and 4 (Issue #4: Ramp Rate) were switched.

b) Review of Notes from MPWG Meeting #49, May 16, 2008 meeting

Members Questions, Comments and Discussion

- None

Next Steps

- IESO to post notes as final.

c) Review of Action Items

John MacKenzie (IESO) presented a proposal to close the following action items:

- AI 36-2: Do other electricity market and system operators use peak or average demand forecasts? Information on the demand forecasts used for price determination is also required.
- AI 45-4: IESO to report back to the MPWG on the following with respect to OPA DR programs:
 1. Should expected DR3 programs activations be used to consider generator and transmission outages?
- AI 48-5: IESO to consider developing criteria for integrating expected DR1 reduction into the IESO market demand.

Members Questions, Comments and Discussion

- Members accepted the proposal.

d) Updates

Brian Rivard (IESO) provided the following updates:

- Control Action Operating Reserve (Issue #13)
As a result of concerns expressed by MPWG members at MPWG meeting #49 regarding the practice of making exports recallable to 'back' Control Action Operating Reserve (CAOR) scheduled in pre-dispatch, the IESO will be advancing the MPWG review of CAOR. The IESO plans to initiate discussions with the MPWG at the August 19th, 2008 meeting.

The IESO has discussed with the Inter-Jurisdictional Trading Standing Committee (IJTSC), options to address the concerns regarding the practice of making exports recallable to 'back' CAOR scheduled in pre-dispatch. The goal is to reduce the number of failed transactions as a result of the IESO making the exports recallable. The IESO is developing the options and will have a conference with the IJTSC next week to seek stakeholder feedback.

- Dispatch Issues (SE-61)
The IESO will be engaging stakeholders over the summer to define the dispatch issues, with the goal of publishing an issues discussion paper in September 2008.
- Day-Ahead Mechanism Options (SE-21)
At the Stakeholder Advisory meeting on June 4th, 2008, stakeholders expressed mixed support for the three options under consideration. The IESO undertook to conduct additional analysis and stakeholder consultation on the following:
 1. including exports in the enhanced DACP under option 1 and 2;
 2. refinement of the guarantees under option 1 and 2; and
 3. an energy forward market.

The IESO intends to report back to the SAC at its August 20th, 2008 meeting and to seek IESO Board direction in September 2008.

- Dispatch Issues (SE-61): The IESO is undertaking one-on-one discussions with market participants in order to determine the nature and scope of the issues to be addressed under this initiative. From these discussions, the IESO expects to define the issue(s) by the fall of 2008. The Director of Market Evolution within the IESO is leading this initiative.

Members Questions, Comments and Discussion

1. Is IESO Board approval required for the IESO to proceed with the 'common elements' of the day-ahead options?

IESO answer: Likely not.

Item 2: Issue #4: Ramp rate used in Real-Time Unconstrained Sequence

Derek Olmstead (IESO) presented simulation analysis results of the impact of the change from 12x ramp rate to 3x ramp rate.

Members Questions, Comments and Discussion

1. The IESO clarified that the simulations showed price drops in the first interval of the ramp-up hours. These price drops, while apparently counter-intuitive, are the result of the change in supply at the top of an hour: 'cheap' imports and hydroelectric generation.

2. A consumer suggested that, while the current analysis could not include a summer period with its air conditioning load and load shape, the IESO could 'theorize' as the impact on prices during a summer peak.
3. The IESO confirmed the following points with respect to the analysis:
 - a. the simulations showed an increase of 0.68 \$/MWh in HOEP while the analysis conducted in support of the change to 3x ramp rate showed a price increase of ~1.50 \$/MWh;
 - b. the lower bound of export elasticity was used in the analysis;
 - c. the reported export values were 'gross', with linked wheels removed;
 - d. examining shadow prices at the interties is necessary to determine if intertie transactions were inefficient; and
 - e. a preliminary regression analysis showed a price increase of ~0.40 \$/MWh.

Item 3: Issue #9 – Peak versus Average Pre-Dispatch Demand Forecast

Jessica Savage (IESO) presented the stakeholder written comments regarding the analysis presented at the MPWG meeting #49, and IESO responses. Brian Rivard provided an update that (i) the IESO was developing a scope of work for the public policy issue regarding trade-off between market efficiency improvements and re-allocation of wealth; and (ii) the IESO expects to initiate that public policy debate in August 2008.

Members Questions, Comments and Discussion

1. Consumers objected to use of the 'effective HOEP'¹ for the following reasons:
 - a. OPG rebates are not likely to be long-term; and
 - b. The OPA Global Adjustment is applied to a consumer's monthly total energy withdrawal regardless of the time of day when consumption occurs. A consumer who has shifted consumption to the off-peak period, where the average demand forecast would be used in pre-dispatch and presumably where the greatest increase in prices would occur, would not see a corresponding increased global adjustment.
2. Consumers also objected to reporting only impacts on average HOEP and requested hourly HOEP impacts.
3. Consumers suggested that the government 'off-coal' program could change the future supply mix so dramatically, that the existing analysis based on the existing supply mix was not relevant.
4. In response to consumer requests the IESO undertook to provide the following information and data (refer to action AI 50-1):
 - a. Hourly HOEP impacts;
 - b. Assessment of the impact of the government 'off-coal' program
 - c. Assessment of the conditions under which the IESO has historically purchased emergency energy and whether such conditions may be more likely if there was a change to using average demand forecast in pre-dispatch.

¹ Effective HOEP includes the impact of the OPG rebate and OPA Global Adjustment.
September 3, 2008

5. A generator objected to the IESO classifying SBG as only an operational issue. He asserted that surplus baseload generation (SBG) was not just an operational issue: it has reliability and market pricing and efficiency implications. Imports to Ontario are attracted and scheduled as a result of the use of the peak forecast in pre-dispatch. These imports contribute to SBG.

Item 4: Issue #39 - Inter-Market Trading of Operating Reserve

Usman Hannan (IESO) presented the stakeholder written comments received on the analysis to date, the IESO response to those comments and the IESO draft recommendation on inter-market trading of operating reserve.

Members Questions, Comments and Discussion

1. The IESO acknowledged that increased inter-market trade in operating reserve and the expected larger regional operating reserve market, increased competition and potentially lower overall costs of meeting regional operating reserve requirements seemed contradictory to the claim that it would also lead to increased investment in resources that could provide operating reserve.
2. A generator noted that claim for reduced use of Shared Activation of Reserve (SAR) was not appropriate given the very different construct of SAR relative to an inter-market trade of operating reserve.
3. At the request of a generator, the IESO agreed to provide summary data on New York and Ontario operating reserve prices, as a more definitive indication of favourable conditions for operating reserve trade between the two jurisdictions. Refer to action item AI 50-2.
4. The IESO clarified that inter-market trade of operating reserve would be using the same intertie transmission lines as inter-market trade of energy. There could be impacts on domestic operating reserve and energy capability and corresponding market prices.
5. A generator noted that while, in theory, inter-market trade of operating reserve may be a 'good thing', there may be significant and complex issues with respect to scheduling and activation of such reserve. These complications, coupled with the expected low margins on reserve transactions, may reduce the priority of this issue.

Next Steps

- MPWG members were asked to submit comments regarding the draft recommendation in writing to the IESO by the end of June 2008.

Item 5: Review of Status of Issue #1 and Issue #30

John MacKenzie (IESO) presented a proposal to keep Issue #1 (pre-Dispatch Price Uncertainty) on hold and to close Issue #30 (Forecast of Real-Time Price).

Members Questions, Comments and Discussion

1. Members accepted the proposal.

Item 5: Other Business

a) Members Issues

- None identified.

b) Review of April 2008 Pricing Events

Devon Huber (IESO) presented a summary of pricing events for April 2008.

Members Questions, Comments and Discussion

1. Members requested that the IESO provide the following information in future pricing event reporting:
 - a. Volume of linked wheeling transactions;
 - b. Value of HOEP in hours where hourly market uplifts exceed the HOEP;
 - c. Value of HOEP in hours when there are very high levels of imports and/or exports.
2. The IESO clarified that generation runback is the situation where a generation unit significantly reduces its output, on an unplanned basis, but remains synchronized to the grid.

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 36-2	1 Mar 07	Do other electricity market and system operators use peak or average demand forecasts? Information on the demand forecasts used for price determination is also required.	Status: Closed	Refer to agenda item 1(c).
AI 44-2	23 Aug 07	IESO to provide the following information regarding administrative pricing: refresher on current market rules and practices, data and summary of administrative pricing events and causes, IESO work programs in place to address the causes.	Status: open. Target Completion Date: Q4 of 2008.	
AI 45-4	29 Oct 08	<p>IESO to report back to the MPWG on the following with respect to OPA DR programs:</p> <ol style="list-style-type: none"> 1. Should expected DR3 programs activations were used to consider generator and transmission outages? 2. What planning and real-time information regarding these programs can be made public? 3. Can the transparency of the triggering of these programs be improved? 4. Define the rules for open and closed notification for the DR3 program. 5. Are market rules needed to authorize the IESO role in the OPA DR programs? 6. Simple numerical examples of DR2 and DR3 response. 	Status: closed	<p>For closure of #1 refer to agenda item 1(c).</p> <p>For closure of #2-6, refer meeting notes from MPWG #48 and #49 meetings.</p>

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 47-2	7 Feb 08	IESO to investigate feasibility of providing stakeholders with pre-dispatch and forecast real-time domestic supply cushion.	Open Target Completion Date: Q4 of 2008	IESO implementing publication of supply cushion data.
AI 47-4	7 Feb 08	IESO to investigate the feasibility of reporting activations of OPA demand response programs as part of the monthly pricing event reporting.	Open Target completion date: To be determined.	IESO to follow-up with OPA for permission and information for such reporting
AI 48-5	6 Mar 08	IESO consider developing criteria for integrating expected DR1 reduction into the IESO market demand forecasts	Closed	Refer to agenda item 1(c).
AI 48-6	6 Mar 08	IESO to provide examples as to how imports have offered operating reserve.	Open. Target completion date: To be determined	
AI 49-1	16 May 08	IESO to determine what parts of the service level agreement between the IESO and OPA related to DR 3 program could be made public.	Open. Target completion date: To be determined	Refer to agenda item 4.
AI 50-1	5 Jun 08	With respect to Issue #9, the IESO undertook to provide the following information and data: <ul style="list-style-type: none"> Hourly HOEP impacts; Assessment of the impact of the government 'off-coal' program Assessment of the conditions under which the IESO has historically purchased emergency energy and whether such conditions may be more likely if there was a change to using average demand forecast in pre-dispatch. 	Open. Target completion date: To be determined	Refer to agenda item 3.

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
AI 50-2	5 Jun 08	The IESO to provide summary data on New York and Ontario operating reserve prices, as a more definitive indication of the favourable conditions for operating reserve trade between the two jurisdictions.	Open. Target completion date: August 19 th , 2008	Refer to agenda item 4.