

Notes of Meeting – FINAL

Date held:	Time held:	Location held:
August 19, 2008	9:00 a.m. to 1:00 p.m.	DoubleTree Hotel Dixon Rd., Toronto, Ontario
Invited/Attended:	Company name:	Attendance Status:
		(A)ttended; (R)egrets; (S)ubstitute
Abdelnour, Francois	IVACO Rolling Mills	A
Bell, Brian	Ontario Power Generation	A
Bellavance, Eric	Hydro Quebec Energy Markets	A
Cary, Rob	Sithe Power	A
Chase, Maia	IESO	A
Cormier, Pascal	Brookfield Power	A
Coulbeck, Rob	RBC Energy Services	A
Finkbeiner, Darren	IESO	A
Greenberg, Jessica	IESO	A
Hannan, Usman	IESO	A
Huber, Devon	IESO	A
Hunt, Robert	Hunt Management Associates	A
Hunter, Kelly	Manitoba Hydro	A (teleconference)
Kerr, Paul	Shell Energy	A
Lam, Tim	IESO	A
LaPierre, Dan	Brookfield Power	A
Leung, Linda	Ontario Power Generation	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
Pakela, Gregory	DTE Energy Trading	A
Penn, Richard	IESO	A
Peterson, David	Ontario Power Generation	A
Rivard, Brian (chair)	IESO	A
Singh, Diljeet	IESO	A
Tintor, John	Aquilon Power	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

- No changes.

b) Review of Notes from MPWG Meeting #50, June 5, 2008

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 47-4: IESO to investigate the feasibility of reporting activations of OPA demand response programs as part of the monthly pricing event reporting.
- AI 48-6: IESO to provide examples as to how imports have offered operating reserve.

Refer to document published on IESO web site at the following link:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20080919-Action_Items.pdf

It was also noted that parts of action items AI 50-1 and AI 50-2 would be addressed under agenda items 2 and 3 respectively.

Members Questions, Comments and Discussion

- With respect to the proposal to close AI 47-4, members asked whether the IESO would be reporting OPA Demand Response 3 (DR3) activations in the IESO System Status Reports (SSRs). The IESO responded that it would not report DR3 activations in SSRs for two reasons. The first reason, the OPA is the 'owner' of the DR3 program and does not want the activation information published by the IESO. Secondly, the current level of contracted participation in the DR3 program is very small and well below the materiality threshold for reporting in SSRs. The IESO advised the Working Group that it believes that the OPA is committed to greater transparency regarding its DR programs and that the OPA is considering means of providing that transparency to the marketplace.

- Members agreed to the proposal to close AI 47-4 provided that in the spring of 2009, the Working Group reviews whether OPA DR program transparency and reporting meets stakeholder needs. Refer to action item 51-1.
- There were no comments on the proposal to close AI 48-6.

Next Steps

- IESO to close action items 47-4 and 48-6, and open a new action item AI 51-1. Refer to list of action items at the end of this document.

d) Updates

Brian Rivard (IESO) provided updates on the following issues and initiatives:

- Stakeholder Advisory Committee meeting on August 20th, 2008;
- Metrics on the day-ahead price forecast;
Refer to document published on IESO web site at the following link:
http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-Item1_DAPF.pdf
- Inadvertent use of 1x Ramp rate (refer to published document);
Refer to document published on IESO web site at the following link:
http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20080819-Item1d-1x_ramp_rate.pdf
- IESO continuing to consult with stakeholders regarding enhancements to dispatch methodologies (SE-61).

Members Questions, Comments and Discussion

None

Item 2: Issue #9: Peak vs. Average Pre-Dispatch Demand Forecast

Tim Lam (IESO) presented information related to action item AI 50-1, specifically:

- 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.

Refer to documents published on IESO web site at the following links:

<http://www.ieso.ca/imoweb/pubs/consult/mep2/MPWG-20080819-Item2-Presentation.pdf>
http://www.ieso.ca/imoweb/pubs/consult/mep2/MPWG-20080819-Item2-Additional_Analysis.pdf
http://www.ieso.ca/imoweb/pubs/consult/mep2/MPWG-20080819-Item2-Response_to_Stakeholders.pdf

Members Questions, Comments and Discussion

1. With respect to the hourly HOEP impacts and the analysis of the impact on the stylized large consumer load shapes, a generator suggested that the impacts were, on the face of it, not significant. He asked whether additional quantification of the off-peak vs. on-peak consumption impacts was

possible. The IESO responded that further quantification would be difficult given that every large consumer would have its own unique consumption pattern.

2. A consumer noted that the IESO has access to the consumption data for every large Ontario consumer. The IESO should use that data to develop typical or aggregate consumption profiles and analyze the price impacts of the change to average demand forecast on those typical/aggregate consumption profiles.
3. A generator suggested that the IESO should develop typical/aggregate consumption profiles for:
 - direct consumers,
 - exports, and
 - local distribution companies.
4. With respect to the proposed assessment of the impact of the off-coal program, a consumer asserted that the assessment relied on too many assumptions. There were too many unknowns regarding the future operation of the coal-fired generation to conduct a meaningful assessment. The IESO should wait until there is some experience (e.g. six months into 2009) with respect to how generators are going to offer in coal fired generation to meet the government program before analysing the impact. The consumer also noted that electricity prices were expected to rise as a result of the off-coal program. The IESO should not be considering market changes, such as the proposed change to use the average demand forecast in pre-dispatch that would add additional upward pressure on electricity prices.
5. In response to the consumer comments above, a generator countered that any analysis of the future can never have perfect knowledge and that assumptions were necessary. Generators would use an “adder” to their offer prices for coal-fired generation to meet the government program. Implementation of the proposed change can be done quickly and could be reversed quickly if the resulting impacts warranted. The consumer disagreed with the final statement of the generator, noting that once a change to the market is made, it would be very difficult to remove.
6. The IESO reiterated that it is not intending to assess the absolute impact on price of the off-coal program, but rather the change in price that would result from the change to an average pre-dispatch demand forecast in an off-coal future.
7. A marketer noted the difference between the Market Surveillance Panel (MSP) and the IESO methodologies of calculating supply cushion. The IESO acknowledged that the MSP methodology was more correct (e.g. the MSP methodology includes the impact of generator outages and derates) and that the IESO was looking at changing its methodology accordingly.
8. A marketer also noted that exports in the off-peak hours are also off-peak demands that are very sensitive to price. If off-peak prices rise as a result of the change to using an average demand forecast, the level of exports would likely fall, reducing off-peak demands from current levels, with the ultimate effect of re-establishing price consistent with neighbouring markets.

Next Steps

1. IESO to complete the off-coal impact analysis.
2. IESO to follow-up with stakeholders on the typical/aggregate consumption profile analysis request.

Brian Rivard (IESO) provided the following update on the status of the work on the public policy issue: trade-off between market efficiencies and wealth re-allocation:

- The IESO has engaged Peter Townley, Head of the Department of Economics at the University of Windsor, to prepare a paper examining the public policy issue in the context of the peak vs. average issue. The paper is expected to be published in late September 2008.
- The IESO intends to have discussions with stakeholders regarding the paper at the October meetings of the Stakeholder Advisory Committee and the Market Pricing Working Group.

Members Questions, Comments and Discussion

1. A marketer asked why the IESO was undertaking this work. The IESO responded that this work (Mr. Townley's paper and the stakeholder discussions) would help the IESO make a better informed decision regarding the peak vs. average issue. The IESO also sees application of the work as future market design and price issues are considered.
2. A demand response advocate suggested that if the change to an average pre-dispatch demand forecast is made, the IESO should also do a post-implementation analysis: e.g. has the change achieved the expected benefits? If not, why not? The IESO should also 'leave the door open' to reversing any decision to change the pre-dispatch demand forecast.

Item 3: Issue #39 - Inter-Market Trading of Operating Reserve

Usman Hannan (IESO) presented the draft final IESO recommendations on inter-market trading of operating reserve. Refer to documents published on IESO web site at the following links:

<http://www.ieso.ca/imoweb/pubs/consult/mep2/MPWG-20080829-Item3.pdf>

<http://www.ieso.ca/imoweb/pubs/consult/mep2/MPWG-20080819-Item3-Presentation.pdf>

Members Questions, Comments and Discussion

1. A generator suggested that the NY-Ontario operating reserve price differences reported were skewed by the unusually high Ontario prices in May of 2008 and that without the high May prices, the price differences may even be reversed.
2. The IESO acknowledged that it did not know what the transaction costs would be for an import of export of operating reserve, but that it assumed that such costs would be non-zero.
3. A generator pointed out that inter-market trading of operating reserve does not exist in any other market in the north east. He also pointed out that the MPWG would be better served by exploring inter-market trading of those products and market mechanisms already successfully established in other markets. This would essentially minimize risk of (i) developing a new market mechanism (re-inventing the wheel) and (ii) requiring the buy-in from adjacent markets of a new product. Furthermore, exploring inter-market trading of products already established would receive the benefit of experience gathered by those markets trading the product. The generator also pointed out that inter-market trading of capacity is successfully practiced by NYISO, ISONE, PJM and HQ. There are well established mechanisms for inter-market trade of capacity. The generator also suggested that the IESO should focus on the inter-market trade of capacity rather than operating reserve.

4. A generator suggested that an appropriate milestone to review the recommendation to not pursue inter-market trade of operating reserve would be when the MISO operating reserve market has operated for 12 months. The MISO operating reserve market is expected to be in-service in the fall of 2008.
5. There appeared to be general MPWG member acceptance of the draft final recommendation to not pursue this issue any further at this time. The IESO then proposed that acknowledgement of the MPWG acceptance of the final recommendation would be through the adoption of these meeting notes.

Next Steps

- IESO to (i) update analysis of NY-Ontario operating reserve price differences to exclude the May 2008 data (ii) to determine the transaction costs for established inter-market trade of capacity as a proxy for transaction costs for inter-market trade of operating reserve and (iii) revise the final report accordingly.

Item 4: Issue #40: Locational Marginal Pricing for Intertie Transactions

John MacKenzie and Tim Lam (IESO) introduced the issue to examine the impacts of scheduling and settling import and export transactions on the basis of locational market prices. Refer to documents published on IESO web site at the following links:

<http://www.ieso.ca/imoweb/pubs/consult/mep2/MPWG-20080819-Item4-Presentation.pdf>

<http://www.ieso.ca/imoweb/pubs/consult/mep2/MPWG-20080819-Item4.pdf>

Members Questions, Comments and Discussion

Marketers raised the following issues and questions regarding this issue:

1. Is the issue of inefficient intertie transactions restricted to New York – Ontario transactions and exports?
The IESO responded that it is not just a New York – Ontario issue. Michigan is now an export market. The IESO has not yet assessed whether there are inefficient imports, but can hypothesize situations where such imports could occur.
2. The IESO should ask the Market Surveillance Panel (MSP) what the priority of this issue is.
The IESO responded that it believes that moving to nodal pricing is, in the MSP's view, still the number one priority to improve the market.
3. An intertie trader suggested that the proposal represents discriminatory treatment between intertie transactions and domestic transactions with respect to charges for internal congestion. Such discriminatory treatment may be illegal.
The IESO responded that it had legal advice that the proposal would not present legal issues.
4. The value of transmission rights should be examined.
5. Strategic offers and bids may make today's shadow prices and the future nodal prices on the interties meaningless.
6. Given the probable complexities and limited benefits of this potential change, which were cited as reasons for not pursuing Issue #39 any further, why is the IESO raising Issue #40 at this time?

The IESO responded that it is just starting out to look into Issue #40 and is trying to scope out the issue and potential solutions.

7. Could the use of locational pricing for intertie transactions be incorporated into the day-ahead mechanisms currently under consideration by the IESO?

The IESO responded that it could be a consideration.

Next Steps

1. MPWG members were requested to provide written comments on the issue paper and strawman pricing design by September 19th, 2008.
2. IESO to present pricing design (revised as required), proposed analysis and work plan and stakeholder engagement plan at MPWG meeting October 29th, 2008.

Item 5: Issue #13 – Control Action Operating Reserve

Jessica Greenberg presented the proposal to remove Control Action Operating Reserve (CAOR) from pre-dispatch. Refer to document published on IESO web site at the following link:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20080919-Remove_CAOR_from_PD.pdf

The presentation and more general discussion of the CAOR structure and pricing was deferred to the October 29th MPWG meeting.

Members Questions, Comments and Discussion

1. A marketer suggested that if Ontario had a true day-ahead market, many of the issues identified with CAOR would be resolved and the IESO would not need to take these half-measures. The IESO responded that there is a pressing need to solve the immediate problem.
2. Marketers supported the proposal, stating that using recallable exports to support CAOR scheduled in pre-dispatch is wrong when neighbouring jurisdictions will not accept such exports.
3. Other members questioned the urgency of the proposed removal, suggesting that the market efficiency and price implications should be assessed and understood first. Concerns were cited over (i) the proposal causing further divergence between pre-dispatch and real-time schedules and prices, (ii) recent operating reserve market conditions were exacerbating the CAOR scheduling and that the recallable exports would not be a problem under more normal conditions, (iii) what are the views, if any of the MSP on the CAOR pricing and structure, and (iv) the price of CAOR should reflect the value of the applicable control action.
4. A generator noted that reliability was really the IESO's responsibility and that he had to defer to the IESO's judgement on reliability issues. He also noted that MPWG could not comment on the proposal's impact on market efficiency and pricing as the MPWG had no information regarding those impacts. He recommended that the pricing and structure of CAOR in the real-time and pre-dispatch sequences be a high priority for the MPWG.

Next Steps

1. MPWG members were asked to submit any further comments on the proposal to remove CAOR from pre-dispatch in writing to the IESO by August 22nd, 2008.

November 25, 2008

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Item 6: Transmission Rights Market Review

Jessica Greenberg (IESO) presented the proposed scope of a review of the Transmission Rights (TR) market. Refer to the document published on the IESO public web site at the following location:

http://www.ieso.ca/imoweb/pubs/consult/mep2/MP_WG-20080819-Presentation-TR.pdf

Members Questions, Comments and Discussion

1. Does the value of the TR clearing account include the asset backed commercial paper (ABCP) liabilities?

The IESO responded that there were 35 million\$ of ABCP in the TR clearing account, all of which was considered as 'illiquid' and that the IESO had reduced the value of the TR Clearing account by 10 million\$.

Next Steps

1. MPWG members were asked to provide comments on the scope of the review, in writing, to the IESO by September 2nd, 2008.

Item 7: Other Business

a) Members Issues

- None identified.

b) Review of May, June and July 2008 Pricing Events

Devon Huber (IESO) presented a summary of pricing events for May, June and July 2008.

Members Questions, Comments and Discussion

1. The IESO clarified that 'surplus baseload generation' (SBG) is the situation where a dispatchable generator must be dispatched off, when it does not want to reduce its output, in order for the power system to reliably meet low levels of demand. Periods of SBG may occur at times of negative market prices.

Action Item Summary				
AI #	Date AI Taken	Action	Status	Comments
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 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.	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.	Closed	Refer to agenda item 1(c).
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	
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 2.

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 3.
AI 51-1	19 Aug 08	In the spring of 2009, the Working Group to review whether OPA DR program transparency and reporting meets stakeholder needs.	Open Target completion date: Q2 2009	Refer to agenda item 1(c).