

### **ISSUE 13: Control Action Operating Reserve (CAOR)**

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On October 29, 2008, the IESO presented a discussion paper and options for pricing Control Action Operating Reserve at the Market Pricing Working Group meeting. Stakeholders were requested to provide written feedback by November 14, 2008.

Two written comments were received and are summarized below along with the IESO response.

#### **Ontario Power Generation comments:**

- 1. Given that CAOR involves use of Out of Market Control Actions that are represented in the market via proxy offers for both operating reserve and energy, it would seem logical that to ensure that CAOR is used efficiently, that the proxy offers should be priced consistent with their societal or market value and be dispatched on the same basis as all other resources. Therefore, OPG supports the suggestion that the IESO determine the approximate value of the control actions. These values need not be determined with high accuracy but just to establish the general range of values.*
- 2. CAOR has two values: the OR value and the energy value. The energy value is more straightforward and represents the price that is associated with activating the control action. The OR value is less intuitive and represents the value of having control action available when needed as a source of OR. The OR price will directly impact how often the CAOR is scheduled. However, the IESO should first determine how often it would be reasonable or acceptable to use these control actions. This will enable IESO to appropriately price CAOR (OR price). Also, it is apparent that the CAOR is scheduled more frequently during spring season. Therefore, the IESO should consider whether the scheduling of CAOR should be limited on a monthly or seasonal basis, not just on an annual basis.*
- 3. If any of the CAOR resources are not activated following the same rules as market OR offers (i.e. energy price), it does not seem fair and efficient that these CAOR resources should be able to compete with market OR yet have special treatment (exemption) when it comes to dispatch. The IESO should also take into account what the OR and energy price should be when the various control actions are being scheduled as OR and to what extent CAOR would be displacing market based OR offers.*
- 4. Under the options presented in October 29<sup>th</sup> MPWG meeting, the NYISO option appeared most attractive as it should minimize the displacement of market based OR by CAOR and allows the use of values for various degrees of OR shortfall. If Option 2 (add 400 MW of \$30 OR into 30 Min pre-dispatch OR and remove 400 MW of \$30.10 of real-time 10N OR) can be implemented with little time and cost, this may be a good interim solution while discussing the details and efficiency impact of implementing something like the NY solution with consideration of the points raised above.*

### **Sithe Global and Cardinal Power comments:**

1. *Given the high degree of apparent correlation between the monthly CAOR scheduling data provided and the equivalent OR prices, there is a clear indication that CAOR is scheduled on an economic basis, in competition with other resources. It can be concluded that CAOR is being scheduled on an economic basis even if other sources of accessible OR are available. Therefore, Sithe Global and Cardinal Power strongly recommend pricing of CAOR at a level where scheduling of CAOR does not materially displace real and accessible operating reserve resources.*
2. *From a reliability perspective, the frequency of scheduling 10 minute CAOR, which is higher than the frequency of 30 minute CAOR, raises a concern. It seems strongly counter-intuitive, and an unfortunate consequence of using near-identical prices for the first tranche. The prices should be structured so as to favour preserving accessibility to real 10 minute OR over 30 minute OR. Also, the IESO should give priority to re-instating the pre-dispatch scheduling of the 30 minute CAOR. This could be achieved without forcing classification of energy exports as recallable.*

### **IESO Response:**

The IESO acknowledges the stakeholder support received for the options presented to address the issues identified with pricing CAOR. The stakeholders have not raised any objection to the principle and proposed analysis for each option and have suggested other options for the pricing and structure of CAOR e.g. wider price spread between 10 minute CAOR offers and 30-minute CAOR offers; seasonal controls.

Therefore, the IESO will continue working on the stated path (Work Plan) to establish appropriate CAOR price and its market impacts, taking into account the stakeholder feedback and suggestions offered. The IESO will consult with the MPWG about the analysis results as per the work plan.