

## IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: May 5, 2006

**Subject: Inter-tie Transactions Setting Price (SE-18)**

Information Item

IESO Board Decision Date: TBD

The market pricing working group (MPWG) has had an initial discussion of this issue at its meeting on April 7<sup>th</sup> of this year. The MPWG timeline for this issue will see discussions at the next two or three meetings, with the expectation of a resolution going to the Stakeholder Advisory Committee and Board in late summer.

### Background Info on the Issue:

Inter-tie transactions are currently not able to set the real-time price in the IESO-administered market. The market was designed such that only resources that are dispatchable in real-time are able to set price and since inter-tie transactions are fixed for an hour, they are not dispatchable in real-time. To include them in setting price at this time would require a fictitious supply curve to be constructed for the Market Schedule which includes inter-tie bids and offers.

Supply side stakeholders and traders are in favour of allowing inter-tie transactions to set real-time price as they argue to do so would create a price that is more reflective of supply/demand conditions. The consumption side stakeholders are not in favour. It is generally accepted that allowing the inclusion of bids and offers will result in higher prices. Some very limited simulations have been done by the IESO which indicated average energy price increases of about \$3 per MWh. If these transactions were to be included in price calculations, there would be choices as to the precise way in which inter-tie transactions would be incorporated into the pricing algorithm.

There are two related topics that should be included in the discussions – the use of peak demand forecast in pre-dispatch scheduling of inter-tie transactions; and the inter-tie offer guarantee.

Other jurisdictions such as New York do not allow inter-ties to set price in real-time, although all neighbouring jurisdictions do allow this in their day-ahead markets. Indeed, the IESO's 2004 design for a DAM included the ability for inter-ties to set DAM prices. One reason that inter-tie transactions are able to set price in day-ahead markets is that the resolution of pricing and inter-tie scheduling is the same in a DAM – hourly.

In discussing the 12x ramp rate issue many stakeholders concluded that resolution of real-time pricing issues should only be explored in a context that considers how the real-time pricing signal should integrate with a day-ahead market design to create an integrated design which would better meet stakeholders' needs and wants. We will be exploring with stakeholders whether resolution of the role of inter-tie transactions in setting real-time prices would also be best addressed in such an integrated fashion.