

MSP Monitoring Report #8

Stakeholder Advisory Committee Briefing
July 12, 2006



- Key Findings & Recommendations
- Statistical Indicators
- Market Outcomes & Anomalous Events
- Assessment:
 - Transmission Rights Market
 - Transitional Demand Response Program
- Conclusions & Recommendations
- Process for Release and Communications

- Market worked well according to its design
- Prices reflected underlying market forces
- No evidence of abuse of market power & rule changes initiated to address specific congestion payment issues

- Uniform price construct has caused inefficiencies & distortions
 - Reform options:
 - Eliminate constrained off payments and
 - Introduce 2 pricing zones, or
 - Introduce locational marginal pricing

- Supply contracts should be:
 - Tied to the market & designed with incentives to offer at prices related to costs
 - Compensation based on MW delivered to market rather than MW produced

- Average prices similar to levels seen a year ago, \$55.88/MWh, \$20/MWh lower than summer 2005
 - Lower Ontario demand
 - Higher levels of supply, particularly nuclear generation
 - Moderating fuel prices, natural gas prices receded
- Implied heat rate
 - consistent bidding, offer prices were tracking fuel cost changes
- Zonal prices and zonal congestion payments

- Direct wholesale load consumption down by about 170 MW avg. while LDC load grows
- Forced outage rates have declined continuously since 2003
- Supply has increased from a year ago with over 1400 MW of new generation (Bruce, Pickering, GTAA)
- HOEP among lowest prices in surrounding markets: NY, PJM, MISO and New England
- But when congestion and losses included, comparison less favourable

Outcomes & 'Anomalous' Events

- Standard explanation of high-price and low-price hours
 - Six hours > \$200MWh; 112 hours < \$20/MWh
 - Lowest HOEP since market open, with a negative price in one interval
- Other:
 - Simultaneous import / export, caused by two settlement system

- Inefficient exports over the New York interface, caused by uniform price regime
 - Measured by frequency of Beck shadow prices > NY zone prices when Ontario was net exporter
 - Exporters purchase at HOEP below actual incremental cost as frequently as 39% of hours in a month (Oct. '05)

- Transmission Rights market issues
 - Whether the TR market is self-funding
 - Prices paid for TR well below expected payouts
- Transitional Demand Response Program
 - Not efficient: value of foregone consumption > cost of generation
 - Unknown whether program assisted loads with infrastructure investment

- Status of previous matters
 - Out-of-market control actions, no longer in the market
 - Reducing dispatch volatility, new IESO measures
- Reduced Michigan inertie limits
 - \$90M transfer from loads to generators
 - IESO has removed phase shifters from service
- Regional Reserve Sharing
 - 50 MW of OR shared between control areas

- Urgent Rule removed Constrained Off payments to linked wheels
- Increasing use of contract mechanisms for new supply and some existing supply
 - Price change of \$1/MWh is now in the order of 19-25¢/MWh to load

- Market functioned well through period
 - Dispatch generally efficient
 - Price movements consistent with underlying market forces
- Rule change to address specific issues with Constrained Off payments
- Anomalous behaviour explained satisfactorily
- No evidence of abuse of market power

- Encourage removal of Constrained Off payments, their time has come
- Encourage locational marginal pricing or possible zonal configurations
- OPA contracts should be tied to market and promote efficiency