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IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee
Date: November 1, 2006
Subject: **Inter-tie Transactions Setting Price (SE-18)**

Information Item

IESO Board Decision Date: TBD

The Market Pricing Working Group held discussions on this issue at its meetings over the summer and fall. The IESO presented its opinion that inter-tie transactions should not be permitted to set real-time five-minute prices as these transactions are fixed for an hour and are not dispatchable in real-time. The IESO invited Working Group members to submit written opinions on this issue. The Working Group requested, and the IESO provided, analysis indicating the pricing impacts of allowing inter-tie transactions to set real-time price.

Two Working Group members; TransAlta and Ontario Power Generation; provided written opinions. Both members disagreed with the IESO opinion, stating that all resources providing energy in real-time should be eligible to set the real-time price.

At its October meeting, the Working Group agreed that this issue be included with the day-ahead market initiative. One of the key issues to be addressed in the day-ahead market design is the convergence of day-ahead market prices to real-time market prices. The role of inter-tie transactions to set market prices (day-ahead and/or real-time) should be considered in that context. This agreement was reached on the understanding that:

- this decision does not prejudice future decisions; and
- if Ontario does not implement a day-ahead market, the issue of inter-tie transactions setting real-time market prices would be re-visited.

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.



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Supply side stakeholders and traders are in favour of allowing inter-tie transactions to set real-time price while consumption side stakeholders are not. It is generally accepted that allowing this will result in higher prices. There are also choices to be made as to the precise way in which inter-tie transactions would be incorporated into the pricing algorithm.

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.