

## IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: March 21, 2012

Subject: **Market Forum Report**

Information Item

The Electricity Market Forum Report was finalized and presented to the government in December 2011. This memo outlines how we propose to address the Forum recommendations.

There are three general categories of recommendations: Integrating the Supply Mix; Engaging and Empowering the Consumer; and Improving Efficiency. While the IESO will be engaged to varying degrees with all of the recommendations, there are nine that are specifically directed to the IESO. A copy of those recommendations is attached.

### **Integrating the Changing Supply Mix**

Recommendations 4, 5 and 7 requires IESO input for recommendation 6

The need to adapt the market to address Ontario's changing supply mix was a key theme in the Forum discussions. The associated recommendations address several matters: the OEB's review of the treatment of OPG's prescribed assets; identifying the need for new or modified ancillary services; enhanced market rule co-ordination with the OPA's procurement practices; and working with the OPA to provide strong market based incentives to new and existing procurement contracts. These activities will be included in IESO plans for 2012. The review of ancillary services will follow and build on the energy modeling capability the IESO is developing and expects to have available by year end.

### **Engaging and Empowering the Consumer**

Recommendations 3 and 8 requires IESO input on recommendations 9 and 10

Consistent with our new vision statement, the need to engage the consumer was highlighted in the Forum's final report. Stakeholders will be engaged to identify barriers to increased demand-side participation in the wholesale markets, and how best to overcome those barriers.

The IESO has already initiated a consultation process to address the Forum's recommendation to review the accessibility, relevance and timeliness of information and data made available to market participants, policy makers and others.

The IESO is also working to provide input to the OPA's demand response review and the OEB's review of the Regulated Price Plan.

### **Improving Efficiency**

Recommendations 1, 2, 11 and 12

Recommendations in this area were given high priority by the Forum. The IESO was asked to carry out a pricing and cost review of the HOEP and Global Adjustment in addition to a review of the two schedule system and intertie trading practices. To assist with these efforts the IESO expects to launch a request for proposals (RFP) process in Q2 with work getting underway in Q3.

Bruce B. Campbell

Attach.

## Electricity Market Forum - Recommendations

1. The IESO should review how its current programs, products, and mechanisms impact the structure of the HOEP. The purpose of this review is to identify whether the HOEP includes components that unnecessarily dampen real-time price signals.
2. The IESO should commission a review of global adjustment to allow greater responsiveness from customers for costs that are now included in global adjustment. Specifically, the review should include:
  - the unbundling of global adjustment into its component parts by reference to the types of costs it recovers (for example, separating capacity from energy costs);
  - allocating global adjustment components appropriately in light of these costs;
  - considering the potential to expand definition of customers who are charged global adjustment on the basis of peak demand; and
  - developing market mechanisms for customers and others to manage global adjustment costs (e.g. capacity mechanisms).
3. The IESO, the OPA and the OEB should jointly engage in a consultation to review the accessibility, relevance, and timeliness of information and data provided by them to market participants and policy makers.
4. The IESO should examine whether new ancillary services or changes to market design should be developed to better manage the changing supply mix. Any new products or changes should allow both generators and loads to participate. Any new products or changes should promote cost effective ways of supplying greater flexibility to the system as a way to mitigate operability challenges, particularly surplus baseload generation. New products or changes could include:
  - Ramp and/or load following service;
  - Co-optimization of energy/operating reserve/regulation; and
  - Changes to unit commitment
5. Any potential Market Rule changes should be coordinated with and include consideration of existing OPA contract provisions.
6. The OPA's procurement process should seek to better ensure that:
  - procurement decisions are informed by market and system needs and system limitations; and
  - new and existing contracts contain strong market based incentives;
7. The OEB's approach to determining payments to OPG's prescribed assets and the OEB's treatment of export transmission tariffs should be reviewed in regards to their efficiency in the market.
8. The IESO should engage in a stakeholder consultation focussed on customers (including loads, LDCs, retailers, aggregators, etc.) to understand the barriers to increased demand-side participation in order to determine the opportunities for cost-effective demand side participation in the supply of necessary system services and enhancing responsiveness to real time system conditions. This includes looking at how customers can engage in the market to cost effectively provide:
  - peak management and load shifting;
  - services in established IESO Administered Market ancillary services (e.g. Regulation and Operating Reserve); and
  - new services or products to benefit system operability (e.g. Ramp, load following, SBG relief).
9. The IESO customer consultation should correspond with and provide input into the OPA's review of its demand response program which is currently underway and the development of the next generation OPA/LDC Master Agreement on Conservation.
10. The OEB's Regulated Price Plan (including time-of-use prices), customer classifications and the structure of utility rates should be designed to provide signals that customers can rely upon to manage their electricity usage in light of system needs and costs.

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## Electricity Market Forum - Recommendations

**11.** The IESO should consider improving, amending, or replacing the two-schedule price setting system in order to improve scheduling, dispatch and pricing efficiency. The review should include:

- addressing Congestion Management Settlement Credits;
- reducing design complexity;
- improving compatibility with other markets; and
- potential for a day ahead market.

**12.** The IESO should review whether there are barriers to maximising potential benefits to Ontario from greater alignment with regional markets through intertie transactions. The scope and requirements of such a review would include identifying opportunities for electricity trade, identifying barriers and addressing feasible options for solutions. Such a review should include:

- More frequent scheduling of intertie transactions;
- Potential to trade long-term capacity and/or operating reserve; and
- Potential for load following and/or regulation services.

For the full report of the Electricity Market Forum, please visit [www.ieso.ca/marketforumreport](http://www.ieso.ca/marketforumreport).