

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

**Electricity Market Design and Structure )      Docket No. RM01-12-000**

**COMMENTS OF THE INDEPENDENT ELECTRICITY MARKET  
OPERATOR OF ONTARIO**

Following its distribution of a final working paper on standardized transmission service and wholesale electric market design, the Commission distributed, on April 10, 2002, an options paper for resolving rate and transition issues on this related matter, and invited affected parties to comment. The Independent Electricity Market Operator (“IMO”) in Ontario respectfully provides the following recommendations on the options contained in the paper.

**IMO Criteria Used for Selecting Options**

The options paper anticipates issues that must be resolved early to enable the standard market design. The IMO, in indicating its views on the options, showed preference for options that promote easier inter-regional integration, and are essential platforms for the standard market design.

The IMO appreciates the Commission’s continued efforts to solicit input on various options for resolving rates and transition issues in the standard market design. Our submission below outlines our preferred options and elaborates on the reasons for selecting them.

**I. Changes Proposed in the Current Services and Recovery of Transmission Revenue Requirements**

**Who pays the access charge for deliveries within the transmission provider's system?**

***The IMO favours Option 2: Access charge is paid only by customers that take power off the grid:***

- (a)** Charging only the load customers in the RTO would promote regional scope in securing wider access to suppliers located outside the RTO. Purchases from outside suppliers would be treated on the same basis as internal transactions involving suppliers within the RTO, as there would be no differential in transmission costs.
- (b)** The benefit of not charging suppliers the embedded costs of the existing network is that a fixed charge component could adversely distort the way suppliers bid into a competitive marketplace since they would be expected to recover the fixed transmission cost component.
- (c)** Transmission service is ultimately paid by electricity consumers, either directly, or indirectly, therefore, it is desirable to avoid the distortion mentioned earlier.

**Should the access charge apply to exports and wheel-through?**

***The IMO favours Option 4 to start with and Option 2 as an ultimate goal: An interim lower access charge would apply to exports and wheel throughs (EWT) than for deliveries within the transmission***

***provider's system and ultimately the access charge would not apply to these transactions.***

- (a) In the longer term, the elimination of exports and wheel throughs charges is desirable. It will inevitably tend to be based on reciprocal treatment by neighbouring jurisdictions or on incremental costs for congestion, but without a contribution to embedded network infrastructure costs.
- (b) Imposition of a fixed charge for exports and wheel throughs for the long-term would distort the auction/sale of FTRs and lead to rate “pancaking”, and reduction in trade opportunities.
- (c) A reasonably low priced export and wheel through charge as an interim measure would not inhibit the further development of more efficient pricing regimes.
- (d) The interim export and wheel through charge should be set at the low end of the range of tariffs in other interconnected jurisdictions, until transition time schedules permit full elimination.

*Is the access charge billed based on peak load or total usage?*

***The IMO favours Option 1: Use monthly peak load for billing the access charge:***

- (a) Charge determinants based on peak demand have stronger link to cost of service for network transmission where costs are largely fixed.

## **II. Transitioning of Customers under Existing Wholesale Contracts and Bundled Retail Customers to Transmission Service under the Revised Pro Forma Tariff**

***The IMO favours Option 1: All service occurs under an open access transmission tariff at the time standard market design is implemented:***

- (a)** It is the best platform for implementation of the standard market design.
- (b)** It eliminates the confusion and onerous effort of trying to integrate the physical reservation for transmission with the schedules that result from the bid based, security constrained real-time dispatch mechanism.
- (c)** Assuming “one-stop” shopping is desirable for billing and collecting a uniform network access transmission service charge, this option is a relatively straightforward way for the RTO to bill and collect the charge.

## **III. Allocation of Transmission Rights**

*Should historical customers get the initial Transmission Rights?*

***The IMO favours an evolution from Option 1 to Option 2: Initially, consider conversion of existing customers’ usage to the initial Transmission Rights and then move to giving all customers that pay access charge the same rights to Transmission Rights:***

- (a) Ontario has not had the opportunity to explore this issue in detail, as locational marginal pricing (LMP) is not yet in place within this province. If an assessment of congestion warrants it, the IMO may implement a form of LMP within Ontario at the wholesale level. As such time, we would expect some form of evolution from Option 1 to Option 2 on Financial Transmission Rights.

*If existing customers are given the initial conversion rights, how should Transmission Rights be allocated?*

***The IMO favours an Alternate Option as the ultimate goal: Auction Transmission Rights and assign the auction revenues that are in excess of congestion payouts to the transmission customers as credits to reduce the embedded charges.***

- (a) The auction process will provide a more robust market for FTRs in that it allows the maximum number of transmission rights to be offered to market participants at prices that reflect the value to buyers.
- (b) The auction process will enable the development an efficient congestion management system in that it would provide immediate and correct price, enabling all market participants to assess the value of the transmission service.
- (c) Allocating rights and surplus revenues to transmission customers ensures that all transmission customers receive some benefit from these surplus revenues.
- (d) In the event of construction of new transmission facilities that add transfer capability outside of rate bases, the entity that funds the

“merchant” construction should receive the additional transmission rights associated with the new transfer capability.

#### **IV. Long-Term Generation Adequacy**

***The IMO currently favours Option 1: Rely on energy prices and information on projected supply/demand situation.***

- (a) Currently Option 1 is compatible with the fundamental design principles underlying Ontario’s electricity market.
- (b) If a need for additional market instruments arises, Ontario may need to consider a more formal capacity or obligations market. In this case, ***Option 5: Capacity obligations for operating reserves only – forward reserve contracts*** may be more compatible with the Ontario market design.
- (c) Consideration of a more formal market should attempt to strike a balance between the risk in relying exclusively on the market’s energy and reserve prices, and the risk of excessive administrative burdens on the marketplace.
- (d) Consideration should also be given to treating a more formal market as “optional”. Activation of this optional market may be given if the RTO determines that the supply of capacity could be inadequate within the next (say) five years and that projected prices for energy and operational reserves (forward price curves) may not provide enough incentive to increase the supply of capacity.
- (e) In RTO regions where retail access has been fully implemented, consideration should be given to have the RTO rather than the load-

serving entities (LSEs) accountable to procure, on behalf of the market participants, options for capacity reserve. The notion of LSEs in RTO regions where retail access has been enacted may no longer be relevant. Customers in areas with retail access may select any supplier, and may switch suppliers at any time for any length of period. Usually, there is an obligation imposed on the “default supplier”, or as some have termed, the “supplier of last resort”. Therefore, it may not be feasible to expect the default supplier to ensure that reasonable long-term reserve margin is available for customers that may acquire their supply needs from any supplier in the marketplace.

**In closing**, the IMO commends the Commission’s efforts in promoting public discussion and appreciates the opportunity to offer comments.

***Respectfully submitted,***

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