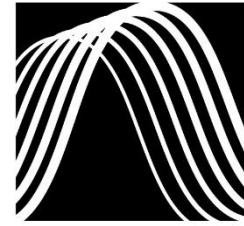


Memo



APPRO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

Date: January 15, 2018
To: IESO Stakeholder Engagement
Cc: APPrO Market Affairs WG
From: Dave Butters
RE: APPrO comments on the IESO's preliminary decision on intertie congestion pricing.

Based on feedback from several of our members (and consistent with submissions and comments made by other electricity trading organizations) we do not feel that the design options on Intertie Congestion Pricing should be considered a "Preliminary Decision".

APPrO believes more information needs to be provided on the pros and cons of each of the possible approaches to intertie pricing and that a deeper discussion needs to take place with stakeholders before a design decision is made.

We would like to point out that examples given at the last SSM presentation do not appear to be consistent with the description on the proposed pricing design. Specifically, the Preliminary Decision commentary on slide 55:

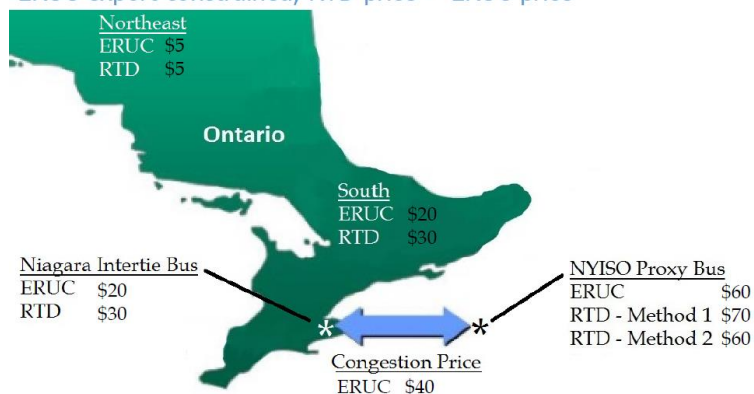
Settle intertie transactions based on:

- a) If there is no congestion - the real-time price at the intertie*
- b) When export congested - the higher of the intertie price in real-time or pre-dispatch*
- c) When import congested - the lower of the intertie price in real-time or pre-dispatch*

AND Slide 69 are not consistent with RTD method 2 being \$60 in this example:

Intertie Pricing – Scenario D

ERUC export constrained, RTD price > ERUC price



Further, we are not convinced that the comment quoted below from the presentation would incent efficient market behaviour by intertie traders or long-term futures traders:

“Method #2 will lead to intertie bids/offers that reflect the actual value of the import/export at the intertie vs. bids/offer that may target scheduling outcomes (knowing that the settlement price is likely to be different between pre-dispatch and real-time)”.

We feel that there has not been a very compelling case provided by the IESO and FTI as to why method 2 is preferable to method 1 in developing and incentivizing desirable behaviour by power marketers in the real time physical markets or how this pricing may impact behaviour in the longer term derivatives market that would be crucial in supporting a capacity auction design.

It is also unclear how TR's might be impacted by this intertie pricing change or what the overall system financial impact might be if the potential financial benefits of importing and exporting power to and from Ontario are changed.

APPrO recommends that the IESO give her consideration to stakeholder feedback around the issue and provide more evidence to support the case one way or the other before a preliminary decision is made.

DB