

**Date:** January 12, 2018  
**To:** IESO  
**From:** Brookfield Renewable  
**RE:** Market Renewal – Single Schedule Market High Level Design

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Brookfield Renewal ("Brookfield") appreciates the opportunity to comment on Market Renewal's Single Schedule Market ("SSM") initiative. In addition, we commend the IESO for accepting the stakeholders' earlier suggestion to publish a "strawman," i.e. its preferred design option in order to facilitate discussion. In this present submission, we wish to raise a number of issues with regards to the IESO's proposed Intertie Congestion Pricing ("ICP") strawman.

On December 11<sup>th</sup> 2017, the IESO proposed to:

*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*

Also, the IESO indicated that the preliminary option was evaluated against two core objectives of intertie pricing:

- *Incent the submission of intertie bids/offers that reflect expected costs, so as to minimize the cost of meeting Ontario load*
- *Determine intertie prices that are aligned with the cost of incremental exports and the value of incremental imports.*
  - *Consistency with treatment of internal resources in constrained regions*

We wish to raise the concerns below:

**1. ICP settlement is directly affected by other more fundamental Market Renewal design options that have not been determined**

A number of proposed Market Renewal changes, such as the Day-Ahead Market ("DAM") and Financial Transmission Rights ("FTR") would have major impact on how intertie transactions would be scheduled and settled. Yet at the moment, these more

fundamental design options have not been finalized. It is therefore difficult for both the IESO and marketers to analyse the impact of its ICP proposal on intertie trading's volume and pricing behavior, given that other important design changes are yet to come.

For example, how will DAM intertie trades' ICP be managed and settled? And would additional financial hedging products be introduced to cover DAM trades? These questions are impossible to answer until DAM and FTR's re-design elements have been confirmed. More importantly, the strawman's proposal to settle with the "higher of pre-dispatch or real-time pricing" completely undermines FTR's current utility as a hedging product. At the moment, the IESO's Transmission Rights payout typically equals the ICP calculated in pre-dispatch. This allows marketers to hedge an intertie transaction's congestion risk with relative accuracy. With the IESO's proposal, the correlation between FTRs and ICPs would not only become mismatched, but also difficult to hedge ex-ante. This associated increase in uncertainty would simply incent marketers to increase import pricing or reduce offer volume. This result is contrary to the IESO objective to: *Incent the submission of intertie bids/offers that reflect expected costs, so as to minimize the cost of meeting Ontario load.*

Brookfield reiterates what had previously been submitted by a large number of stakeholders: ICP design options should remain unchanged until other design options such as DAM, FTR, and More Frequent Intertie Scheduling have been finalized.

**2. Any "energy supply" that can serve the same reliability need economically should be treated equally**

The IESO's second core objective aims to: *"Determine intertie prices that are aligned with the cost of incremental exports and the value of incremental imports"* and to apply *"Consistency with treatment of internal resources in constrained regions."* In other words, a reliability need that can be met economically with intertie trades should not be discriminated against vis-à-vis internal generators. During the December 2017 presentation, the IESO noted that its strawman is more consistent with how congestion affects locational pricing for internal generators. However, internal generators settle at 5-min intervals, and can quickly modify its offers in response to market conditions. Intertie transactions however, are currently locked-in for 1-hour once scheduled. These two transaction types are therefore not comparable. Even if the IESO were to establish intertie trades with 15-min intervals, the difference in maneuverability is still significant. More importantly, efficient market design should incentivize an importer to schedule, in pre-dispatch, trades to economically meet a reliability need. Contrary to this principle, the IESO's proposal actually discourages importers from scheduling trades closer to its opportunity costs, because: a) as mentioned, hedging would be difficult, and b) the

marketer stands to receive the lesser of the pre-dispatch and real-time price. In this scenario, importers would be unduly

discriminated against compared to internal generators, and would respond by decreasing import volume in pre-dispatch. In essence, importers should not be penalized for responding to pre-dispatch signals published and calculated by the IESO.

### **3. Marketers and internal generators have different decision-making considerations**

Aside from the concerns raised above, the IESO should be reminded that marketers schedule trades by evaluating different “opportunity costs” than internal generators. Ontario’s internal generators are presently beholden to either long-term contracts or under government regulation. This effectively acts as a strong incentive for internal generators to schedule trades, as a large portion of their costs is recovered outside of the energy market. In contrast, marketers receive the bulk of their payment from the energy market alone, and thus bear different risks than internal generators. In other words, although imports and internal generation can both economically satisfy a locational need, and should therefore be compensated and treated equally, different incentives drive their offers. This is an important distinction to note: as the IESO introduces capacity markets and move away from long-term contracts, the incentive of “merchant” internal generators to schedule offers will also evolve. The IESO should take this fact into consideration, and ensure today that marketers and thus merchant internal generators, are provided with fair incentives to function in an efficient and transparent market.

In sum, we suggest that ICP re-design should only take place after DAM and FTR design consultations have been completed, and should remain unchanged for the moment. We also generally support comments from other stakeholders, such as HQEM, who have raised similar concerns.

Thank you,

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