

January 19th, 2017

**Marketing d'énergie HQ Inc. /  
HQ Energy Marketing Inc.**  
75 René-Lévesque Ouest, 18<sup>e</sup> étage  
Montréal, Québec  
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Attention: Stakeholder engagement

**Subject: Comments of HQ Energy Marketing Inc. (“HQEM”) on treatment of the Intertie  
Congestion pricing in the Single Schedule Market initiative.**

Please find below HQEM’s feedback, as requested in the December 11<sup>th</sup> meeting.

First of all, HQEM commends the Independent Electricity System Operator (“IESO”) for providing stakeholders with the opportunity to comment on the Single Schedule Market (“SSM”) initiative, especially on the treatment of Intertie Congestion Pricing (“ICP”), as a part of the upcoming Market Renewal, an effort to lay the foundation for an Ontario electricity market of the future.

HQEM would like to comment on the preliminary decision proposed in the December 11<sup>th</sup> presentation. As mention in the presentation, the possible approach the IESO would choose:

*[...] 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 [...] <sup>1</sup>*

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<sup>1</sup> <http://www.ieso.ca/-/media/files/ieso/document-library/engage/ssm/ssm-20171211-price-formation-options.pdf?la=en>  
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In the same presentation, it was verbally stated that the proposed option [...] *is more consistent with how congestion affects locational prices at internal locations [...]*. As it is presently shown in the design tracker<sup>2</sup>, congestion will impact internal generators by adding a congestion component to the energy price. These generators will not be subject to a similar approach suggested for the treatment of ICP, where importers would always receive the lower of the intertie price in real time or pre-dispatch. With the proposed method, importers would be receiving a limited income for their energy, which is discriminatory. Importers should be allowed to capitalize on favorable fluctuations of the congestion, as internal generators would. With this way of remunerating, a disconnection between financial transactions for hedging purposes and Real-Time transactions would occur. It would put more risks on the shoulders of the importers and would go against one of the Energy Board objective, stated in the Energy Board Act: [...] *To promote economic efficiency and cost effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable electricity industry. [...]*<sup>3</sup>.

Also, it is mentioned 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 [...]*<sup>4</sup>

These two core objectives don't reflect the opportunity cost for importers. In their evaluation, importers must analyze where electricity is more valuable. This is the opportunity for being flexible, reliable and available, when an electricity need is shown. Treatment of the importers needs to be different, based on this opportunity, with how internal generators are settled, as their offers are cost-based.

HQEM would like to add that currently, internal generators are settled on a five minutes basis, which gives them flexibility when market prices fluctuate. Importers, as of now, settle on an hourly basis. This creates another risk and also a discriminatory situation for importers, which could lead to a reduction of imports. The consultant FTI made a conclusion that current ICP method is giving importers an incentive to modify their bids, since the congestion component in the pricing is static throughout a full hour. Switching to a dynamic pricing for the congestion would better reflect the congestion in Real-Time and it would follow other jurisdictions models, as PJM and MISO. HQEM would be supportive of a dynamic pricing for intertie congestion.

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<sup>2</sup> <http://www.ieso.ca/-/media/files/ieso/document-library/engage/ssm/ssm-design-tracker.pdf?la=en>

<sup>3</sup> <https://www.ontario.ca/laws/statute/98o15> Part 1, 1(1) 2.

<sup>4</sup> <http://www.ieso.ca/-/media/files/ieso/document-library/engage/ssm/ssm-20171211-price-formation-options.pdf?la=en>  
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The purpose of the Market Renewal is to enhance the actual market. HQEM believes that the current proposal fails to promote the objective. In the meantime, we don't have, as of now, all the information in order to give a proper proposition on the treatment of the ICP. We need to know how other issues of the Market Renewal will be resolved, especially in regards to Day-ahead transactions and FTR.

Best regards,

A handwritten signature in black ink, appearing to read 'Frédéric Bélanger', with a long horizontal stroke extending to the right.

Frédéric Bélanger  
Manager, Regulatory Affairs, HQEM