

Date: 19 January 2018
To: IESO Market Renewal Stakeholder Engagement
Cc:
From: David Martin
Re: December 2017 Meeting: Single Schedule Market Phase II – Options and Preliminary Decisions

Nalcor Energy Marketing (NEM) has the following comments about the December 2017 SSM meeting.

1. NEM would like the IESO to provide more information about the design of the DAM and FTR market so that the proposed methods of real-time intertie price formation can be properly evaluated. As well, the examples provided in the intertie congestion pricing section of the slide deck do not provide enough information for us to understand the impacts of the two methods. It is our view that the SSM design decisions should be made after the DAM and FTR consultations have taken place.
2. Intertie traders and internal generators have different risks, so the two groups should be considered separately to ensure that there is consistency in the fair treatment of IESO market participants. Consider the following points:
 - Intertie traders consider their production costs as well as their opportunity costs when submitting bids and offers to Ontario.
 - Currently, intertie trades are locked in to a schedule 120 minutes before the hour of flow; therefore, intertie traders are exposed to the risk that real-time prices (both Ontario prices and their opportunity costs) will i) deviate from what their expectations were 120 minutes before the hour of flow and ii) make their Ontario transaction uneconomic. And, unlike internal generators, intertie traders do not have the flexibility that 5-minute dispatching provides. Intertie traders' schedules are locked in for the entire period (currently 60 minutes), and no changes can be made in this timeframe if the price makes their transaction uneconomic.
 - It is clear that intertie traders are limited in their ability to manage the risk that intertie prices will become uneconomic. Because of that, intertie

traders' exposure to favorable and unfavorable real-time price deviations from ERUC, should be balanced and proportional.

- One method that intertie traders can use to manage their risk is to use financial hedging products, such as FTRs. Therefore, it is our view that the IESO's ultimate decisions regarding intertie pricing should be compatible with financial products. Otherwise, intertie traders will be forced to manage the risk that intertie prices will become uneconomic by reducing the volumes of their intertie transactions or by building risk into their bid and offer prices (i.e. decreasing their export bid price or increasing their import offer price).

Thank you for the opportunity to submit feedback.

Regards,
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