

Independent Electricity System Operator  
1600-120 Adelaide Street West  
Toronto, ON  
M5H 1T1

Re: SSM Project – Price Formation Issues

Attention: Stakeholder Engagement

TransAlta would like to thank the Independent Electricity System Operator ("IESO") for the opportunity to comment on the SSM Project. TransAlta supports the continuation of a competitive market in Ontario that delivers an efficient, competitive and reliable electricity/market for the wholesale supply and purchase of electricity and ancillary services to best serve customers and ratepayers.

TransAlta has three key concerns with the presentation provided in the December 11, 2017 meeting:

1. Intertie Congestion Pricing preliminary decision does not create market efficiency
2. Price Setting Eligibility requires more analysis on the impacts to the market
3. Energy Reference Levels should be based on costs for different class of units with the ability to set pre-approved levels for unique assets

Intertie Congestion Pricing:

TransAlta believes that it is premature to determine Intertie Congestion Pricing as the Day-Ahead Market has not been determined. To further support participants involvement, the IESO should also take into consideration the interaction between intertie pricing and transmission rights.

TransAlta suggests the following needs be considered:

1. Flexibility will suffer as there will be no incentive to respond to conditions in Ontario. The preliminary decision to settle intertie transactions at the higher of real-time or pre-dispatch for exports and the lower of real-time or pre-dispatch will disincent participants from participating on the interties.
2. Cost structure for interties are different from internal facilities and cannot be directly compared. Intertie transactions are based on opportunity costs and thus there are no marginal costs associated with the offers/bids. Thus interties and internal generators cannot be treated the same.

3. Transmission Rights, Financial Transmission Rights, Day-Ahead Market structure will affect the intertie price. How these items settle will greatly effect interties. TransAlta recommends that intertie congestion pricing decision be delayed until these elements have been finalized.

Price Setting Eligibility:

The IESO's preliminary decision is to adopt the status quo of disallowing resources' restricted MWs to set price. As the IESO rightly points out in the presentation, Price Setting Eligibility and alternative Price Formation design elements are a subject of debate and discussion in neighbouring jurisdictions. TransAlta believes that more consideration of the issues and proper discussion to allow for better evaluation of the options is necessary before deciding on a course of action that will be hard to alter down the road.

Energy Reference Levels:

The IESO's decision to apply the principles used today to determine reference levels for market power mitigation in an SSM market is appropriate with a few modifications. TransAlta recommends that a process be developed to create pre-approved reference levels for units. The IESO should publish energy reference levels for classes of facilities and allow facility owner's the opportunity to submit unit specific values based on their facilities unique characteristics. Any reference level for a class of units that require fuel should reflect the volatility of fuel prices from day to day. In addition there should be a review of the process on a yearly basis in order to minimize the administrative burden to both the IESO and market participants.

Conclusion:

In summary, TransAlta has the following concerns:

1. The IESO should delay a decision on intertie congestion pricing until the DAM structure has been determined;
2. More analysis is required as price setting eligibility is of much debate in neighbouring jurisdictions; and
3. Reference price should be based on class of units with a process to pre-determine unit specific values.

Overall, TransAlta believes that further consultation is required on the Single Schedule Market on price formation. We look forward to participating in future discussions with the IESO. TransAlta would like to thank the IESO for taking into consideration our comments.

Sincerely,

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