

November 20th, 2018

**Marketing d'Énergie HQ Inc. /  
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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 (“SSM”) High Level Design (“HLD”).**

Please find below HQEM’s feedback, following September 27<sup>th</sup> release of the SSM HLD draft on the IESO website.

First of all, HQEM commends the Independent Electricity System Operator (“IESO”) for providing stakeholders with opportunity to comment on the SSM HLD, especially on the treatment of Intertie Congestion Pricing (“ICP”), as a part of the upcoming Market Renewal.

The decision presented to participants on ICP in the SSM HLD was detailed as follow:

The ICP settlement would be equal to:

- The Real-Time intertie price if there is no congestion in Pre-dispatch
- Pre-dispatch intertie congestion charge plus Real-Time intertie price (option 1)<sup>1</sup>, if export congested
- Lower of the Real-Time intertie price or final Pre-dispatch price on the intertie (option 2)<sup>2</sup>, if import congested

The rationale stated behind this decision was to encourage the scheduling of economic exports and protect the load from inflated cost when the intertie is import congested. Also, the IESO suggests that the chosen option for the treatment of imports will encourage offers to reflect the expected marginal

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<sup>1</sup> <http://www.ieso.ca/-/media/files/ieso/document-library/engage/ssm/ssm-20180718-presentation.pdf?la=en>  
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<sup>2</sup> <http://www.ieso.ca/-/media/files/ieso/document-library/engage/ssm/ssm-20180718-presentation.pdf?la=en>  
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value of each transaction. The marginal value for an external generator is equivalent to its opportunity cost. The opportunity cost, in economic literature, is defined as the value of a best alternative while making a choice. Those opportunity costs arise because resources can be used in alternative ways, as participants, like HQEM, can submit offers on multiple markets through a flexible schedule, due to its reservoirs or other resource. Limiting the expectation of profit for external market importers will discourage them from participating in the market.

The treatment of congestion at interties, when it comes to imports, poses an additional risk for participants who wish to proceed with such transactions. This is, in theory, contrary to the mission of IESO, which mentions:

- [...] *Planning for and competitively procuring the resources that meet Ontario's electricity needs today and tomorrow* [...] <sup>3</sup>

HQEM understands that setting up the DAM market will allow participants to reduce their risk; however there will always be situations where real-time opportunities arise.

The competitive aspect of the market is also mentioned in the Ontario Energy Board (“OEB”) By-Law #3 art.4.1.1 <sup>4</sup>, which targets the Market Surveillance Panel (“MSP”) duties:

[...] (b) *Identifying activities of the IESO that may have an impact on market efficiencies or effective competition;*

(c) *Identifying actual or potential design or other flaws and inefficiencies in the market rules and in the rules and procedures of the IESO;*

(d) *identifying actual or potential design or other flaws in the overall structure of the IESO-administered markets and assessing whether any one or more specific aspects of the underlying structure of the IESO-administered markets is consistent with the efficient and fair operation of a competitive market; and [...]*

HQEM notes that there are already laws in place to ensure healthy competition in the marketplace and to assess that the designs in place are effective and efficient. Moving forward with the proposed ICP design would raise elements requiring special attention from the OEB due to the inequitable treatment of imports in the SSM. This design will affect participants, like HQEM, who wish to import energy in Ontario, by retaining a treatment targeting them specifically and which is discriminatory.

HQEM would also like to add that no other markets are doing this kind of import / export discrimination. For example, in the New York ISO (“NYISO”), when the Hour Ahead Market (“HAM”) shows significant congestion, market participants get the Real Time (“RT”) price. There is no “lower of” mechanism to adjust pricing. In other markets, there is no RT qualification price and again, all market participants, importers and exporters, get the RT price at the interface.

<sup>3</sup> <http://www.ieso.ca/en/Learn/About-the-IESO/Vision-Mission-and-Values>

<sup>4</sup> [https://www.oeb.ca/oeb/Documents/About%20the%20OEB/OEB\\_bylaw\\_3.pdf](https://www.oeb.ca/oeb/Documents/About%20the%20OEB/OEB_bylaw_3.pdf)

In addition to this, HQEM notes that the treatment of wheel-through (“WT”) transactions will be evaluated in the development of the detailed design. However, at present, if this decision is implemented, there will be two settlement methods used for WT transactions, which imply a major risk for participants wanting to perform such transactions, since it creates a discrepancy between the treatment of the import and the export leg of the trade.

HQEM notices the following mention in the HLD of the SSM:

*[...] While the current application of a static ICP in real time is reasonable and has been used for some time in Ontario [...]*<sup>5</sup>

HQEM would like to bring the following comment to this quote: There is no necessity to change the treatment of the ICP since the current one is considered reasonable, as the IESO failed to demonstrate a need for change.

Another concept which needs to be brought forward is the correlation between transmission rights (TR) and ICP. This is a strategy frequently utilized by physical energy generators to hedge real-time congestion risk. HQEM understands that this topic will be examined in a coming stakeholder engagement, but related issues should be evaluated together, since a decision like the ICP in the HLD SSM will impact many aspect of the market design.

Best regards,



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Manager, Regulatory Affairs, HQEM

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<sup>5</sup> <http://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/ssm/SSM-High-Level-Design-Sep2018.pdf?la=en> p.15