

# **SSM High Level Design: Market Surveillance Panel Comments**

Don Dewees  
Market Surveillance Panel  
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The Market Surveillance Panel (Panel) welcomes the opportunity to comment on the Single Schedule Market High Level Design released in October. We commend the IESO for the great effort that it has put into the Market Renewal Program over more than two years and the extensive consultation with stakeholders at the Market Renewal Working Group and in the SSM and other streams. We also commend the many stakeholder representatives who have put enormous time and effort in working with the IESO to develop the SSM High Level Design and the other HLDs that are in the works. The process has been rigorous, productive, collegial and respectful despite differing interests and opinions.

We believe that the SSM HLD reflects the principles of ‘delivering efficient outcomes to reduce system costs’ and ‘sending clear efficient price signals’ that have guided Market Renewal and were adopted by the Market Renewal Working Group. The SSM HLD solves several long-standing problems that have impaired the operation and raised the costs of Ontario’s wholesale market. The Panel has commented on some of these problems in the past. Efficiency requires that to the extent feasible prices reflect real costs of the system so that market participants can respond to those price signals appropriately. We believe that the SSM HLD furthers this goal.

Almost twenty years after the Market Design Committee recommended moving to zonal or nodal pricing of electricity the SSM HLD incorporates zonal pricing for generators and for loads. This provides financial incentives for generators to locate where prices are highest, where they are needed most. Zonal pricing provides incentives for new providers such as storage and distributed generation to locate where their services will be most valuable and for loads to explore new technologies to adapt to zonal price conditions. Apart from the persistently lower prices in the Northwest and Northeast zones, much of the average price difference between zones arises from transient events such as transmission or generator outages causing substantial short-run price excursions. Some loads in affected zones can respond to such price events today. Developing technology is enabling new forms of demand response that were not feasible or economic previously. Monitoring and management technology continues to improve in capability and to fall in cost enabling commercial and institutional customers to respond to price signals in ways that benefit themselves and the electrical system. Zonal pricing will increase the ability and desire of loads to respond to such events, and of service providers to respond to such events in ways that will be profitable for them and will reduce the severity of those events.

Some stakeholders have recommended abandoning zonal pricing for loads on the grounds that the greater price uncertainty in a zonal system produces little or no benefit. This is a call to abandon one of the main principles of the wholesale market and of Market Renewal: producing accurate prices that create efficient incentives. We cannot support abandoning these short-run

zonal price signals. While few loads will change location for small differences in annual electricity cost, many loads may find ways to respond profitably to short-run price excursions. Some have said that load response to electricity prices is simply academic. We cannot agree. Quantitative studies of actual behaviour of loads facing actual variations in electricity price have shown that in aggregate they do respond. The electricity industry press is replete with news of firms offering new services and technologies to consumers large and small that will reduce costs, improve performance and adapt to a changing energy environment. We cannot accept the implication that such progress cannot happen in Ontario. Moreover, the SSM incorporates a distribution of residuals to zones and loads with the highest average prices which mitigates much of the concern about uncertain electricity costs while preserving short-run price incentives. At the end of the year, the cost risk for consumers in any zone should be small.

Some stakeholders have expressed concern about the uncertainty associated with many of the changes being introduced in the SSM HLD. It is true that changes will have real impacts on various stakeholders – we could achieve no efficiency gains without change. But electricity markets across North America have dealt successfully with much larger changes as fuel prices have gyrated, environmental mandates have been adopted and new technologies have appeared. It is natural for stakeholders to look to the detailed market design to mitigate/minimize their risks. But the purpose of markets is to make as transparent as possible the real costs of activities so that participants can adjust their behaviour efficiently. The existing SSM HLD seems supportive of this goal. Many of the uncertainties can be dealt with in the detailed design phase of Market Renewal where the IESO has committed to continued stakeholder engagement.

Some stakeholders have noted that the impact of the SSM HLD on RPP consumers is not specified in the HLD and supporting analysis, because the RPP is largely in the jurisdiction of the OEB, not the wholesale market. This creates operational and financial uncertainties. It would be helpful if the OEB could work to resolve some of the uncertainty during the detailed design phase to ensure a seamless merging of the detailed design with whatever RPP will be in place when the new energy market rolls out and to offer some guidance to LDCs and their RPP customers in the meantime.

The SSM is the first of the HLDs to move toward detailed design. The Panel encourages the IESO to continue to pursue the fundamental principles underlying Market Renewal despite the unease that some stakeholders feel about the uncertainties that are inherent in any major change in the wholesale market. We look forward to the IESO leading the detailed design phase with the goal of resolving the myriad details in the spirit of maximizing efficiency and creating market incentives with an eye on the costs and benefits of the changes being made.