

## **November 17, 2005 Comments of the Manitoba Hydro-Electric Board (Manitoba Hydro) on the**

### **Day Ahead Commitment Process – Stakeholder Engagement SE-7**

#### **Reference Documents as distributed for the November 16, 2005 Stakeholder Working Session**

As requested at the November 16, 2005 Stakeholder Working Session, Manitoba Hydro has the following comments on the Day Ahead Commitment Process. The comments brief given the exceedingly brief comment period.

##### 1. Day Ahead Process is Needed

Manitoba Hydro supports the principal of a day ahead commitment process, or preferable a day ahead market in Ontario. As a neighbour, Manitoba Hydro fully concurs with the IESO statement “The level of 2005 unreliability is unacceptable to Ontario and our neighbours<sup>1</sup>”. Manitoba Hydro would strongly prefer a well designed day ahead market, but understands this is not possible by summer 2006.

##### 2. Market Should be Mandatory

Reliability should not be voluntary. Must offer requirements are common in similar U.S. markets. There is no reason Ontario generators can’t live with a similar requirement.

##### 3. Export Bids Must be Considered by the Day Ahead Process

Manitoba Hydro is extremely surprised that the IESO is even considering not including export bids in the day ahead process. As a member of the interconnected grid, Ontario has a duty to all its neighbours, which include Manitoba Hydro, to be a good citizen of the grid. As already quoted, the IESO has stated “The level of 2005 unreliability is unacceptable to Ontario and our neighbours”. During the summer of 2005, the IESO presumably had to repeatedly rely upon resources committed by its neighbours to keep the lights on Ontario. Now, Ontario is proposing not to return the favour. Manitoba Hydro strongly urges the IESO to consider exports bids in the day ahead commitment process.

Manitoba Hydro does not see a difficulty in implementing this commitment for export bids. As this is a reliability issue, and there is no need for an IOG type price guarantee (which can not be made because there is no day ahead market). Concern was expressed at the November 16 session that this could amount to a free call option

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<sup>1</sup> IESO November 16, 2005 presentation “Day Ahead Commitment Process with Reliability Guarantees: Design Description”, slide no.3.

for exports from Ontario. This is easy to fix. Simply charge the exporter an uplift to cover the commitment costs for the day ahead export bid if no real time energy is scheduled. This would prevent any additional export commitment costs from being passed along to the Ontario consumer.

Manitoba Hydro also notes that the proper bodies to stakeholder this aspect of the day ahead commitment process are not just those within Ontario, but adjacent control areas and markets, as well the Northeast Power Coordinating Council (NPCC). Manitoba Hydro urges the IESO to contact these bodies for their comments this aspect of the proposal.

#### 4. Import Process is not a Level Playing Field

The Day ahead commitment process proposes to provide a day ahead intertie offer guarantee in exchange an unspecified “settlement charge” for imports that fail in real time. If effect, depending on how the “settlement charge” is defined, this effectively makes the day ahead import offer financially firm. Manitoba Hydro does not specifically object to the financially firm nature of the imports. However, this financially firm product does not apply to Ontario generators. Indeed to do so would be a financially binding day ahead market, which the IESO has said is not possible by summer 2006. A financially binding day ahead market for imports and Ontario generator would truly help reliability in Ontario by giving all a financial incentive to perform to their day ahead commitments.

To have a financially firm day ahead product only for importers to Ontario is discriminatory and puts out of province generators (who are also needed to keep the lights on) at a competitive disadvantage and provides a gaming opportunity for internal Ontario generators to reduce competition from external supply. For example, consider two identical cost generators, one inside and one outside of Ontario. The internal Ontario generator offers energy at a low price (below variable cost) in the non-financially binding day ahead commitment process. The low offer would undercut supply from the external generator, who will not offer to supply below its identical variable cost due to the financially binding nature of the imports. The Ontario generator is committed, and it now raises its energy offer for real time (as changes to prices are not restricted). The external generator is not committed and can not supply in real time, leaving the internal Ontario generator to make additional profit due to the reduced competition, and also resulting in increased prices for Ontario consumers.

Based on the above, Manitoba Hydro is of the opinion a non –financially binding day ahead commitment process will clear at artificially low prices. As such, it will not be successful in attracting additional supply into Ontario, as that supply will go to those markets whose day ahead markets clear higher. Further, the DAIOG is not all that attractive as it only guarantees the day ahead offer price, not the market clearing price which is often much higher. The net result of these features is the day ahead import

product does not appear that attractive for importers into Ontario, and likely will not attract needed day ahead external supply.

The difference in rules and financial firmness for import supply from the U.S. and internal Ontario supply creates an unlevel playing field for imports and leaves Ontario open to NAFTA challenges.

As a result of the issues raised in points 2) and 4) above, Manitoba Hydro sees limited improvements in reliability resulting from this process. Manitoba Hydro suggests that IESO consider scrapping this interim measure, and focusing all its effort on a complete financially binding day ahead market.

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