

**To:** Stakeholder Advisory Committee

**Date:** September 5, 2006

**Subject:** **Inter-tie Transactions Role in Setting Real-Time Price - Status**

Information Item

At the July 7 meeting of the Market Pricing Working Group (MPWG) the IESO presented the position that inter-tie transactions setting the real-time price should be addressed in the context of a Day-Ahead Market (DAM) and the upcoming study on Locational Marginal Pricing (LMP). The supply community strongly objected to this stance referring to the IESO board resolution that directed the IESO to *“give focused attention to resuming and advancing work with stakeholders... on whether inter-tie transactions should be considered in the calculation of the Ontario Market Clearing Price”*.

At the August 4 meeting of the MPWG, the IESO started the discussion on the inter-ties issue by stating their opinion that inter-tie transactions should not be able to set the real time market clearing price for the following reasons:

- The IESO feels that only resources that are dispatchable in the pricing time frame may set the price. As inter-tie transactions are not dispatchable on a 5 minute basis they may not set the 5 minute, real time, market clearing price.
- Allowing inter-tie transactions to set the real time price is inconsistent with our neighbouring jurisdictions, adding to the already large list of inconsistencies
- Implementing this initiative is a complex re-engineering of the real time market. Consuming stakeholder and IESO time and distracting resources from other, higher priority market evolution initiatives (LMP, DAM) where the efficiency gains are likely larger.
- The IESO believes that inter-tie transactions should be able to set price in the time frame in which they are dispatchable. This would allow inter-tie transactions to set day ahead, hourly prices and is a feature of neighbouring jurisdictions' DAMs. This is a likely feature of a DAM in Ontario.



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The IESO is inviting written stakeholder positions on this issue. To support the stakeholders work in developing their opinion, the IESO has published data on August 25 of 4 weeks of market simulations (1 week from each season) to assess the potential price impacts on the market. It is expected that the stakeholders will have their positions submitted in mid-September (date to be finalized at September 1 meeting of the MPWG). The IESO will review the submitted comments and reassess its opinion on this issue.

On the related topic of using a peak demand forecast in pre-dispatch to schedule inter-tie transactions on August 25<sup>th</sup> the IESO also published the results of an analysis of 7 days of market simulations which demonstrate the effects of moving to an average demand forecast. The IESO will address any questions or concerns about this analysis at the September 1<sup>st</sup> meeting of the MPWG and stakeholders are expected to review this work and have their positions prepared for discussion at the October 5 meeting of the MPWG.