

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: November 1, 2006

Subject: IESO Response to the MSP Report Recommendations

Information Item

IESO Board Decision Date: N/A

The IESO develops responses to the various MSP Report recommendations. In the past these responses were not made available to the stakeholders however based on the suggestions from SAC members the IESO proposes to adopt a tracking process to monitor the status of new and previous MSP Report recommendations that pertain to the IESO. This will be publicly accessible and will be updated as appropriate with progress and/or new recommendations. Although the format and publication details are not yet finalized included below is the IESO response to the latest MSP Report.

The latest report from the Market Surveillance Panel made recommendations with respect to several IESO programs and processes. We have considered these recommendations and the status of work in these areas is described below.

1. *The Panel recommends work be undertaken by the IESO to be able to relate constraint payments to specific transmission interface limits.*

Constraint payments arise whenever there is a difference between how the IESO dispatches a resource and how the price-setting Market Schedule has used that same resource. When differences occur, they can be for many reasons. The two most notable differences are that the Market Schedule does not consider transmission limitations within Ontario, and the Market Schedule currently uses a twelve-times multiplier for ramp rates of dispatchable facilities. Hence, a constraint payment made to a resource may have been caused by one or more transmission limitations, or by the ramp rate differences. Analysis of the reasons for particular constraint payments to particular resources is very complex and would involve judgement. One of the benefits of locational marginal pricing is that the impacts of transmission constraints will be transparent through the prices. Since there is an ongoing study of LMP, we will not be actively addressing this finding from the MSP report. If the outcome of the LMP study were to be that LMP is not to be pursued in the foreseeable future, then we will reconsider this finding at that time.

2. *Market rule changes leading to full implementation of a “replacement offer program” for multi-unit station aggregates should be pursued.*

This item was completed under Stakeholder Engagement plan SE 9. The rules were approved at the July 27th Board meeting.

3. *A pilot test program for compliance aggregation with a large (300+ MW) dispatchable fossil facility should be established.*

A two week Compliance Aggregation pilot for a pair of fossil units was carried out in late July 2006. This pilot was designed to assess the impact on both system and market operation of compliance aggregation of ramp limited¹ resources. While the two units had very low ramp rates, both units had identical ramp profiles in both directions, up and down. This provided great operational flexibility for the fossil plant with no impact on the DSO dispatch of other resources. The market participant involved with the pilot considered the test a real success in addressing local dispatch issues.

Currently the IESO is working with stakeholders under Engagement plan SE 9 on a pilot with other fossil or combined cycle facilities without identical ramp profiles to determine a set of rules that would guide the operation of ramp limited facilities in Compliance Aggregation. It is expected that another pilot will take place early this fall.

4. *Improvements to TDRP should be considered:*

- *Better price signals for trigger, possibly through use of 1 or 2 hr ahead prices*
- *Allow participants to nominate their threshold / strike prices*

The Transitional Demand Response Program is scheduled to end in April 2007. Given the limited time left in the initiative, the improvements suggested by the MSP will not be considered by the IESO for TDRP. The IESO has identified these recommendations to the OPA and will continue to work with the OPA on the structure of future demand response, and incorporate the MSP findings in these discussions.

¹ Ramp limited units are non quick start units whose ramp rate restricts them from being dispatched to move from minimum load to full load in two intervals. Ramping ability of these units ranges from slow ramping (1 to 2 MW per minute) to medium ramping (4 to 7 MW per minute)



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- 5. There is merit in the IESO conducting a review of options to reform the uniform price construct. Locational pricing offers greater efficiency than the uniform price construct.*

We concur with this recommendation. A study of the possible Locational Marginal Pricing options for Ontario is underway under Engagement plan SE 25. The study will identify the possible impacts of the various locational pricing models that could be implemented in Ontario. The results will be provided to the Stakeholder Advisory Committee, IESO Management, and the IESO Board. These results will be used by all stakeholders as they consider future evolution of the market, including how locational marginal pricing may affect the day-ahead market design initiative.