

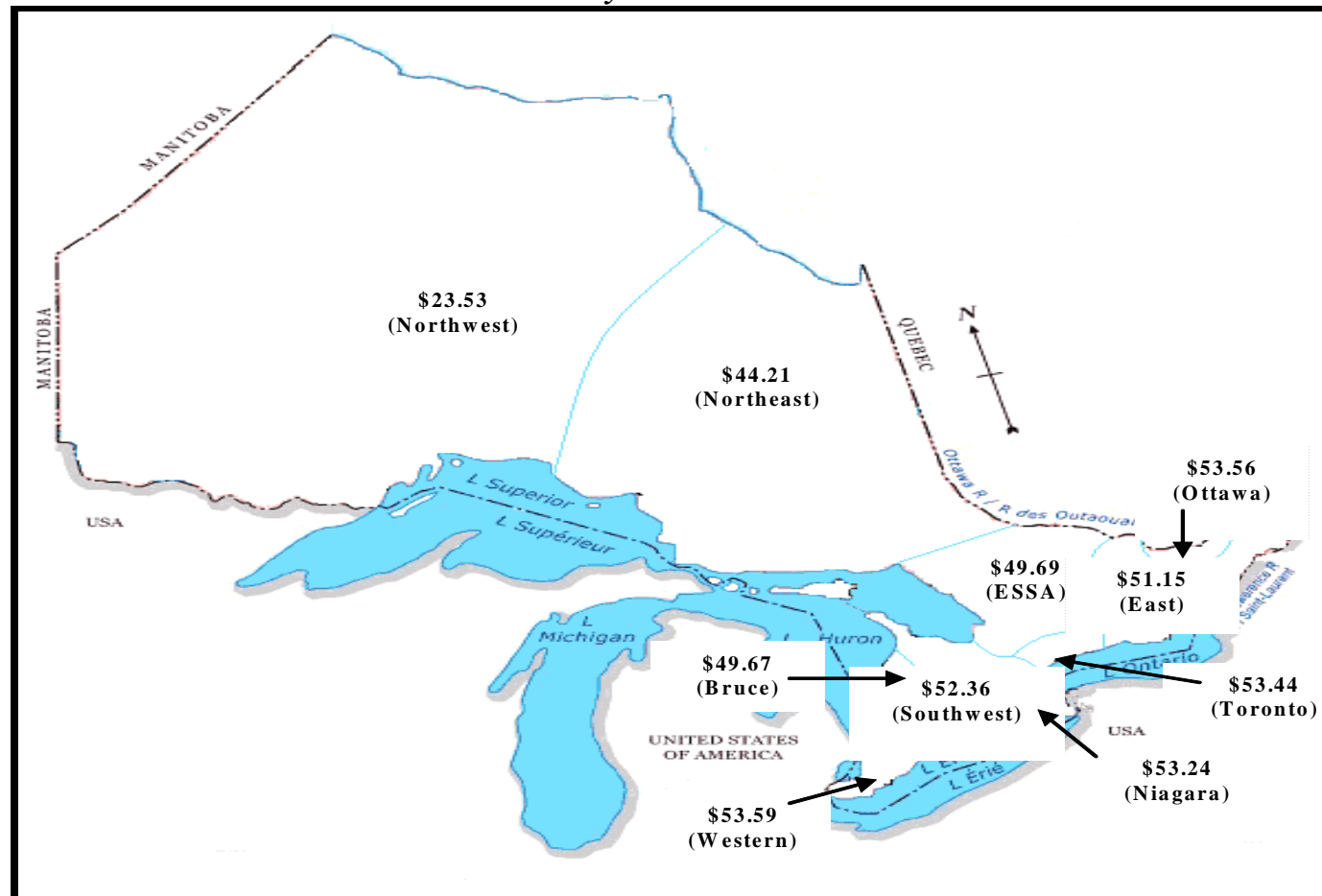
The IESO Administered Markets May-October 2006

Briefing to the Stakeholder Advisory Committee on the MSP's 9th Monitoring Report
January 24, 2007



- **The spot market continues to have a central role to play in ensuring that consumption, investment and dispatch decisions in Ontario's new hybrid market are efficient.**
- **Spot Market prices should provide an accurate reflection of underlying supply and demand conditions**
- **Uniform price construct continues to cause inefficiencies**
 - **Most apparent in terms of exports as their value can be easily quantified**
 - **The uniform price construct subsidizes some loads at the expense of others**
- **Changes in the design of the spot market, such as locational pricing would increase the quality of the signals provided to planners and regulators as well as to producers and consumers**
- **Now is a good time to make these changes.**

*Figure 1-24: Average Internal Zonal Prices
May–October 2006*



- Maximize the use of interval meters by implementing time of use pricing.
- Design programs to curtail demand when the load's value of consumption is less than the cost of providing it
- Inducing customers to curtail consumption at times when the value they derive from the service is greater than the incremental cost of providing it does not conserve resources in the true sense of the word.
- The efficiency of the hybrid market would best be served if OPA demand management decisions could be reflected in real-time prices rather than eventually showing up as a non-market uplift cost to consumers
- Integrate Demand Response programs with the IESO's dispatch process to maximize efficiency

- Market worked well according to its design
- Hourly prices reflected underlying market forces
- No evidence of abuse of market power or gaming
- The effects of the hybrid market via Global Adjustments are becoming more apparent

- Average prices lower than levels seen a year ago, \$45.26/MWh, \$30/MWh lower than summer 2005
 - Lower Ontario demand caused principally by moderate weather as well as reduction in wholesale demand
 - Higher levels of supply, particularly nuclear generation
 - Moderating fuel prices, natural gas prices receded
- After taking into account the Global Adjustment's effective price to consumers is only \$10 lower than the summer of 2005

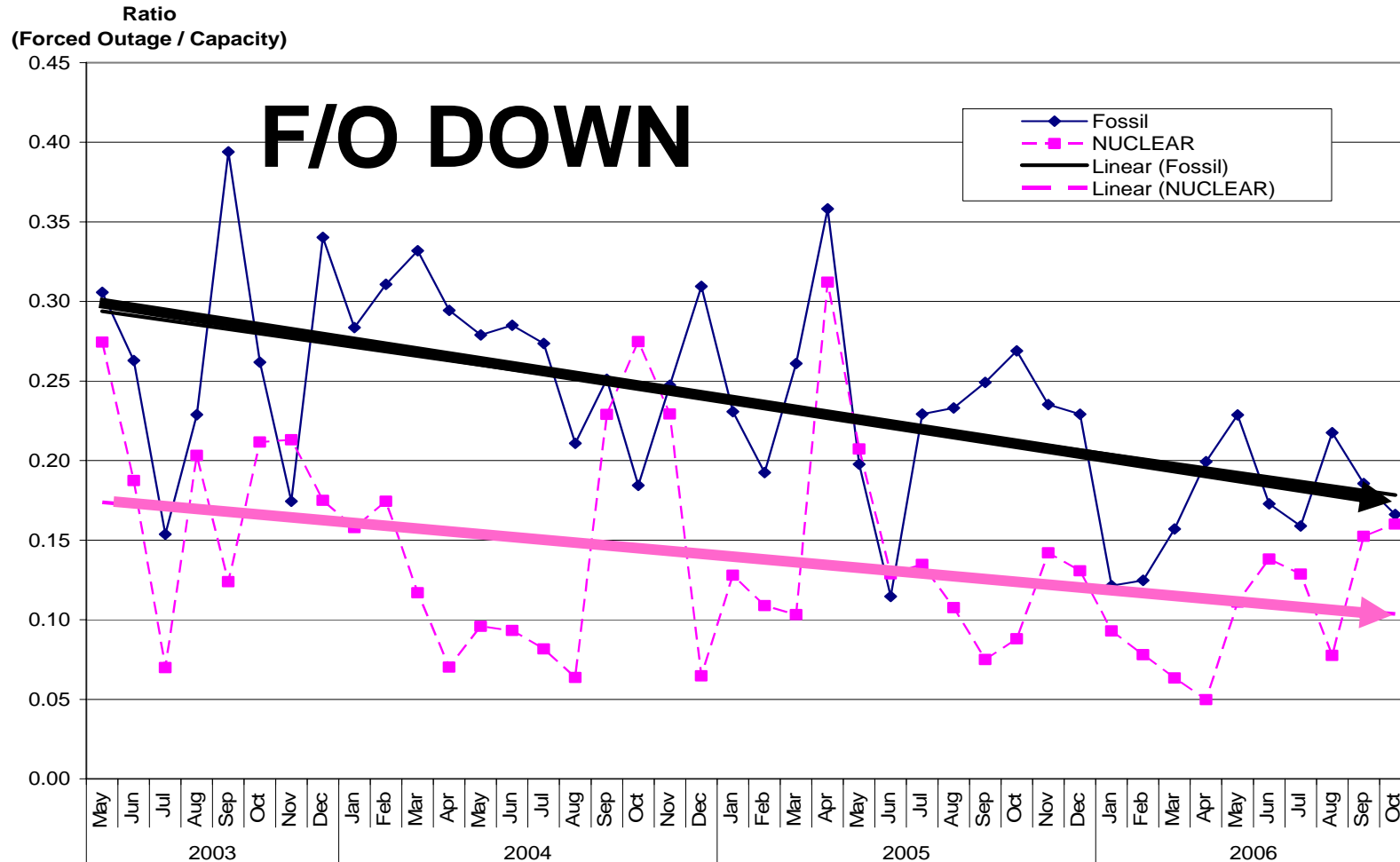
**Table 1-3: HOEP and Load-Weighted Average HOEP
May–October, 2005 and 2006**

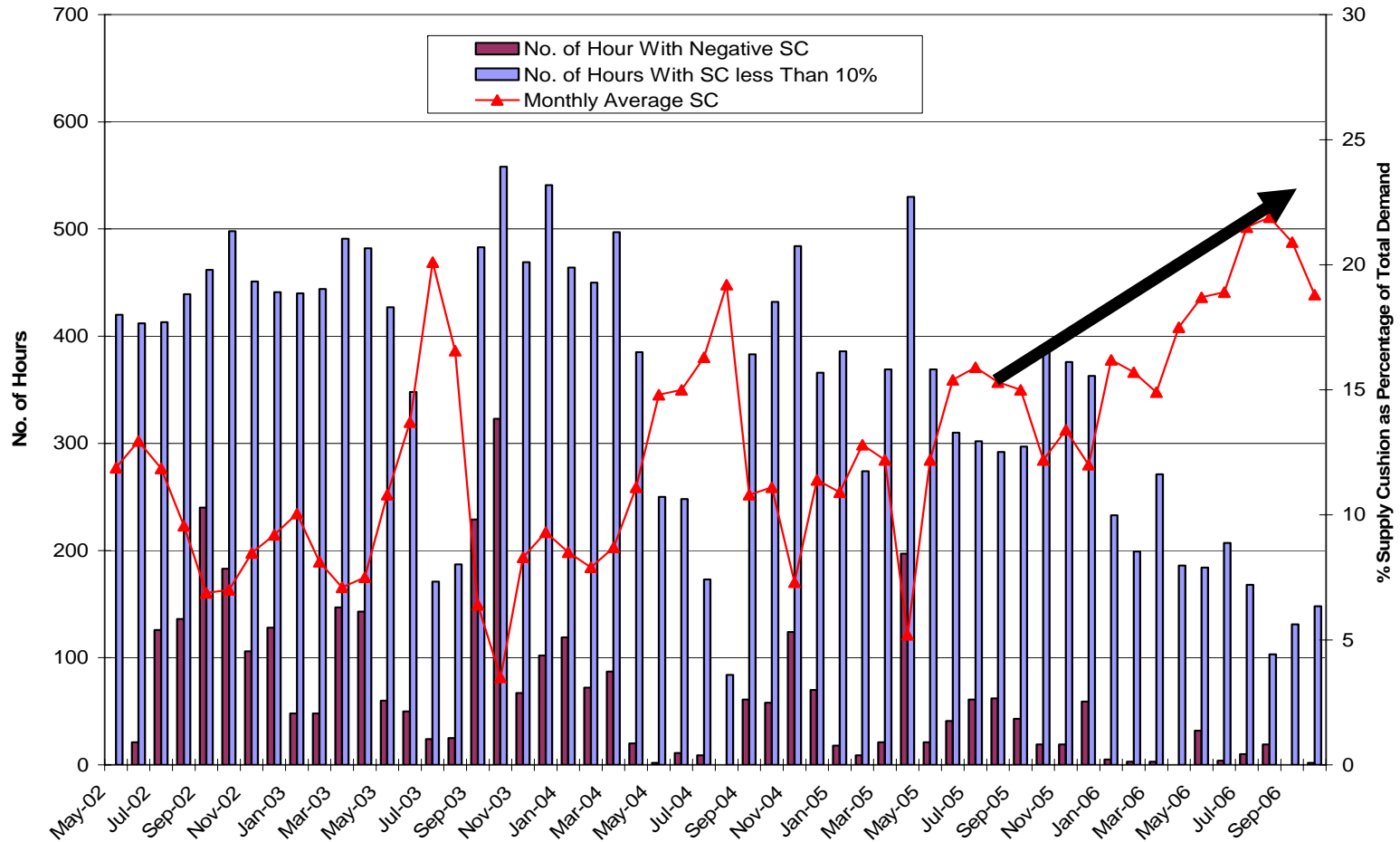
Year	HOEP	Weighted HOEP	Dispatchable Load Weighted HOEP**	Other Wholesale Load Weighted
2005	\$75.44	\$80.97	\$70.29	\$75.40
2006	\$45.26	\$48.24	\$43.12	\$45.37

**** DL payment has OR payment subtracted**

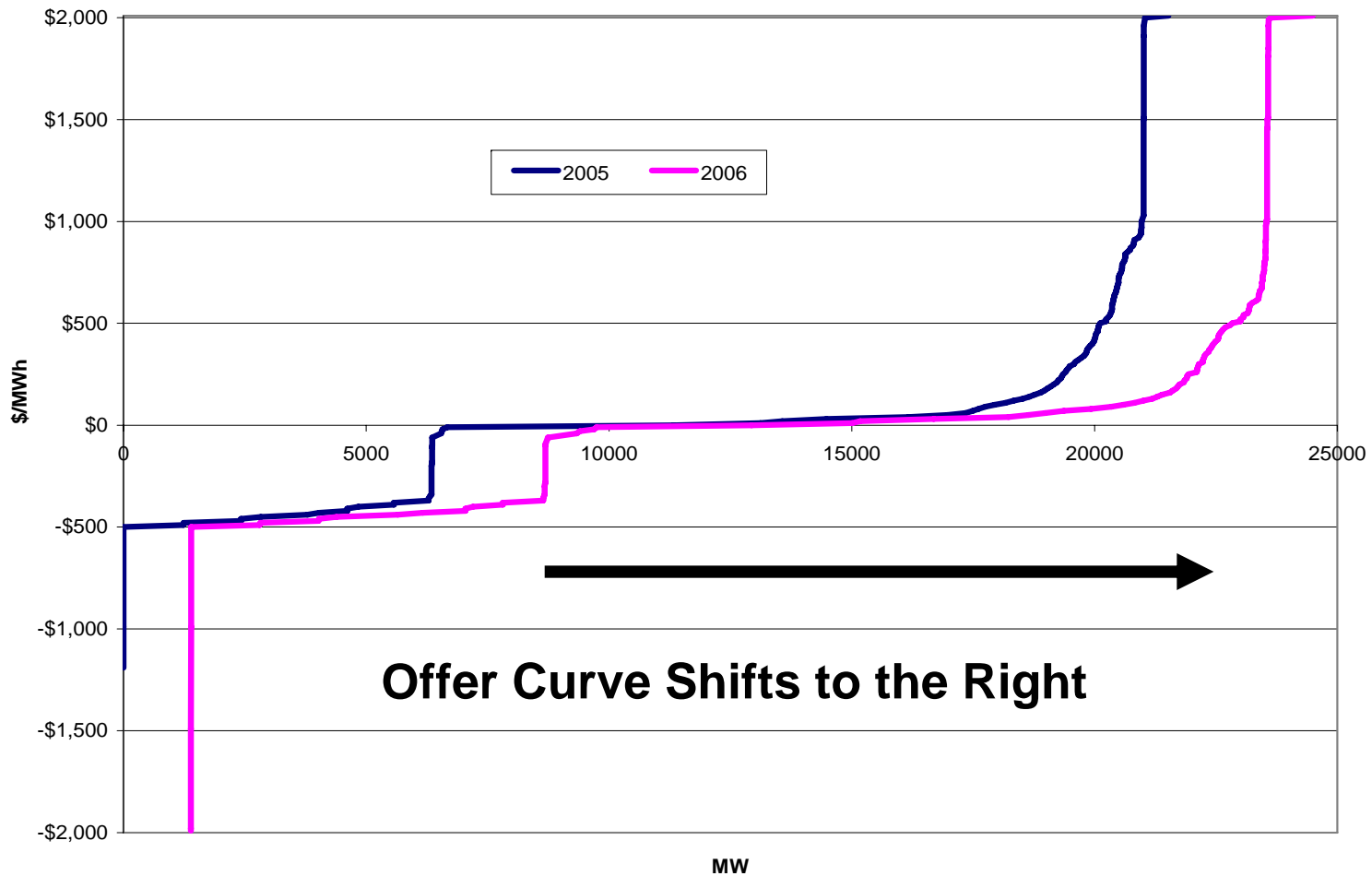
- Load consumption down by 2.9 TWh over the previous period (670 MW average)
- Forced outage rates have declined continuously since 2003
- Supply has increased from a year ago with over 700 MW of new generation
- HOEP among lowest prices in surrounding markets: NY, PJM, MISO and New England
- New record demand of 27,005 MW, load appears to be getting “peakier”
- Market uplifts continue to fall

Forced Outages Relative to Total Capacity by Fuel Type

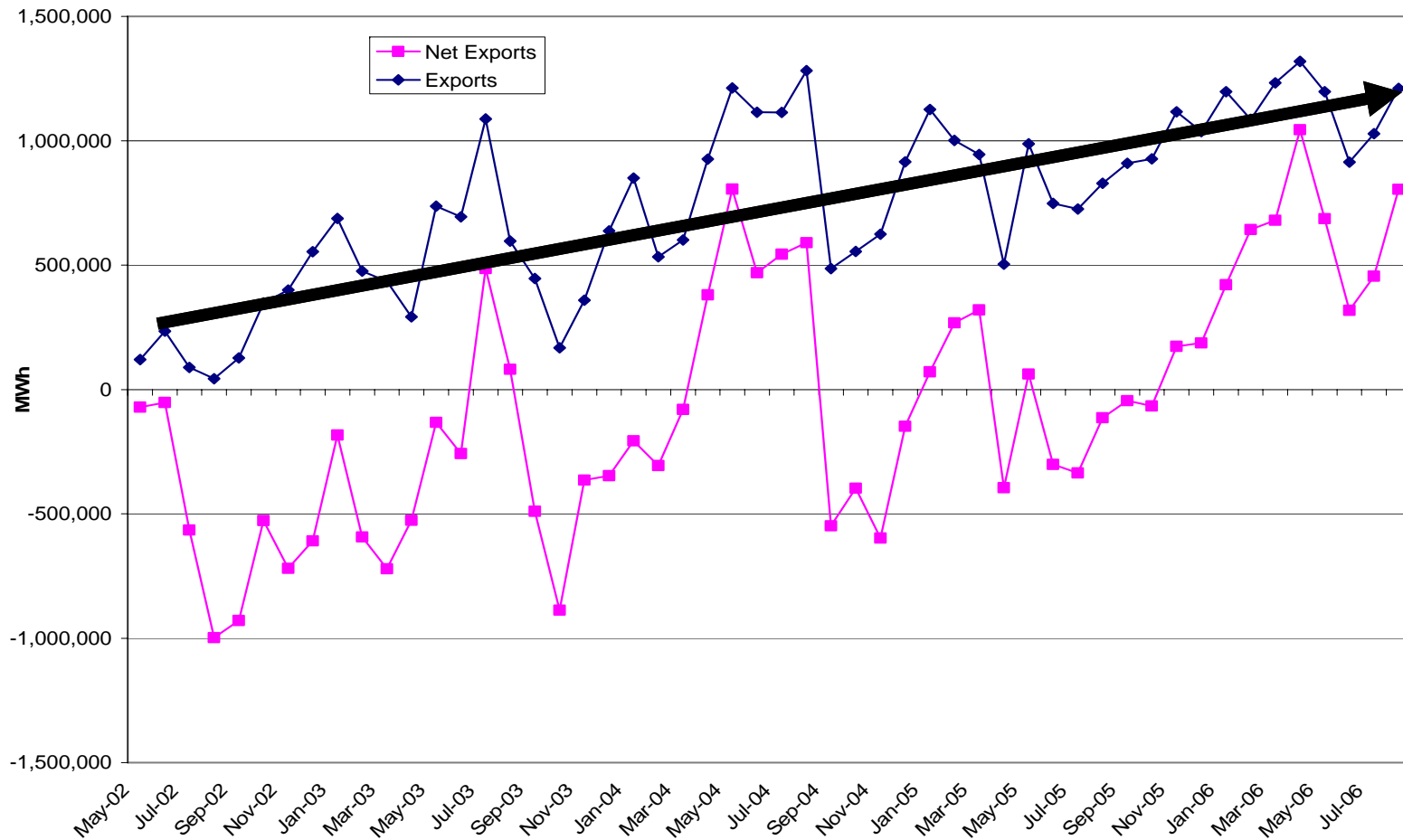




Increased Supply – Offer Curve

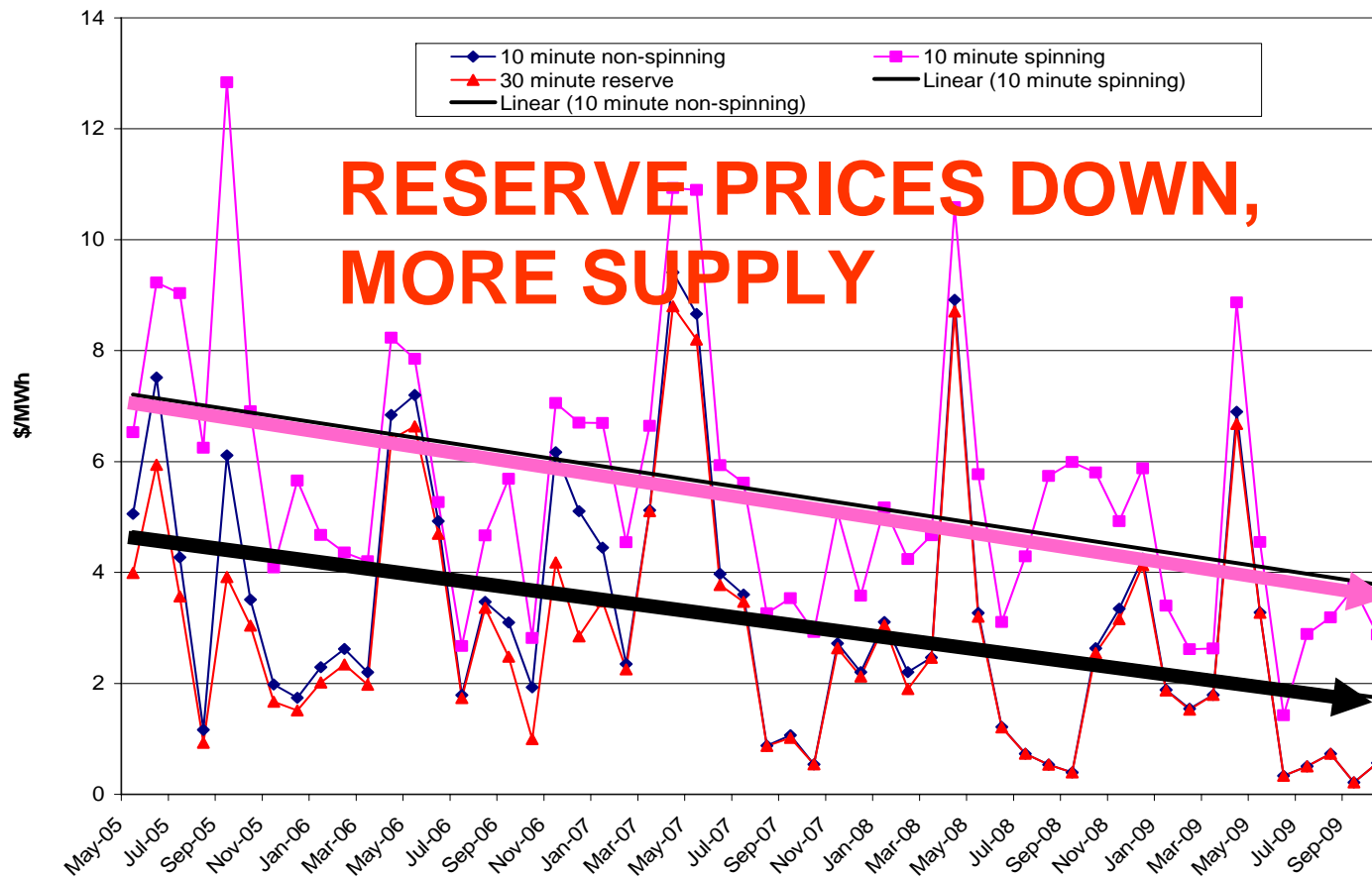


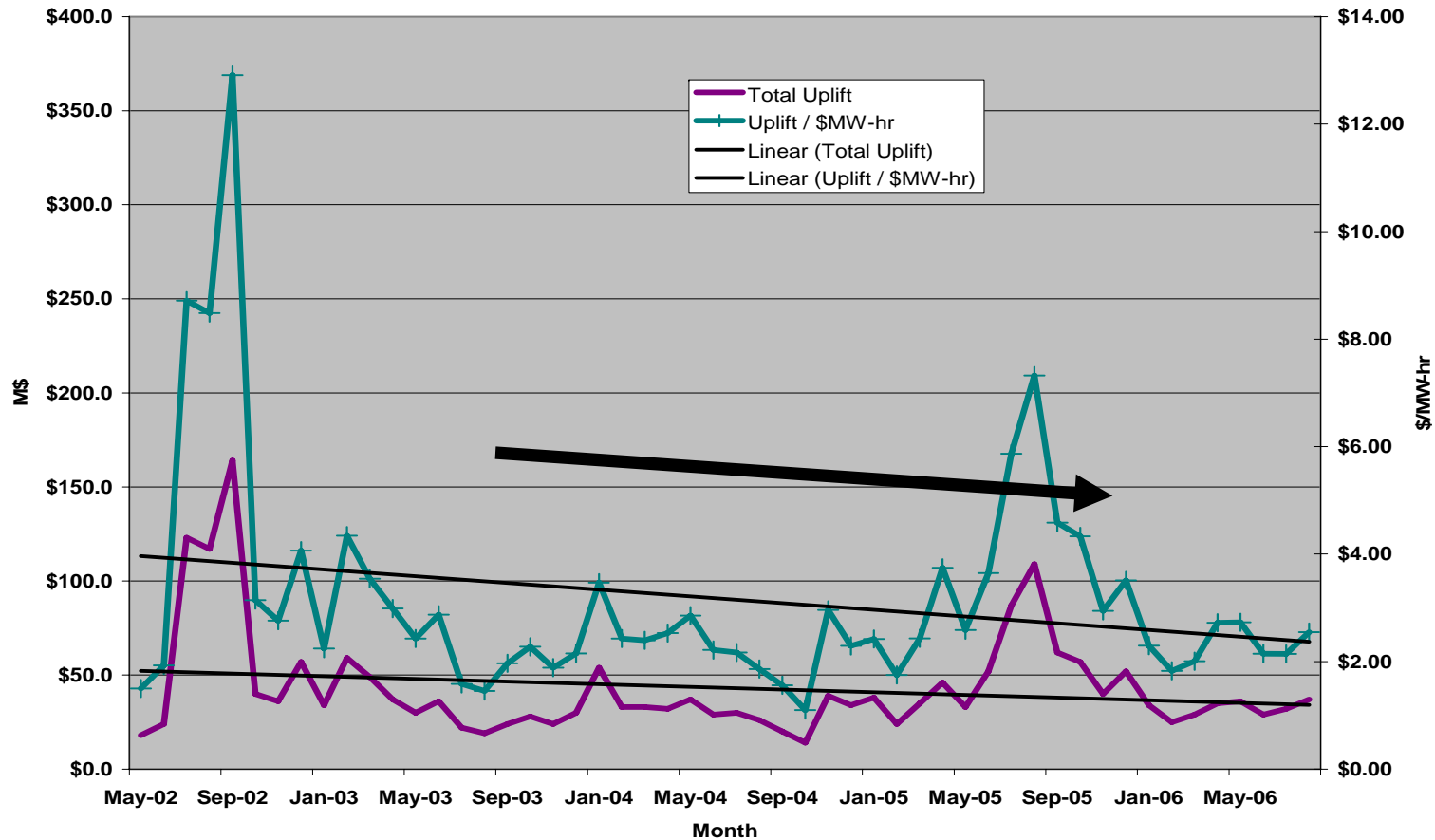
Exports and Net Exports Since Market Opening

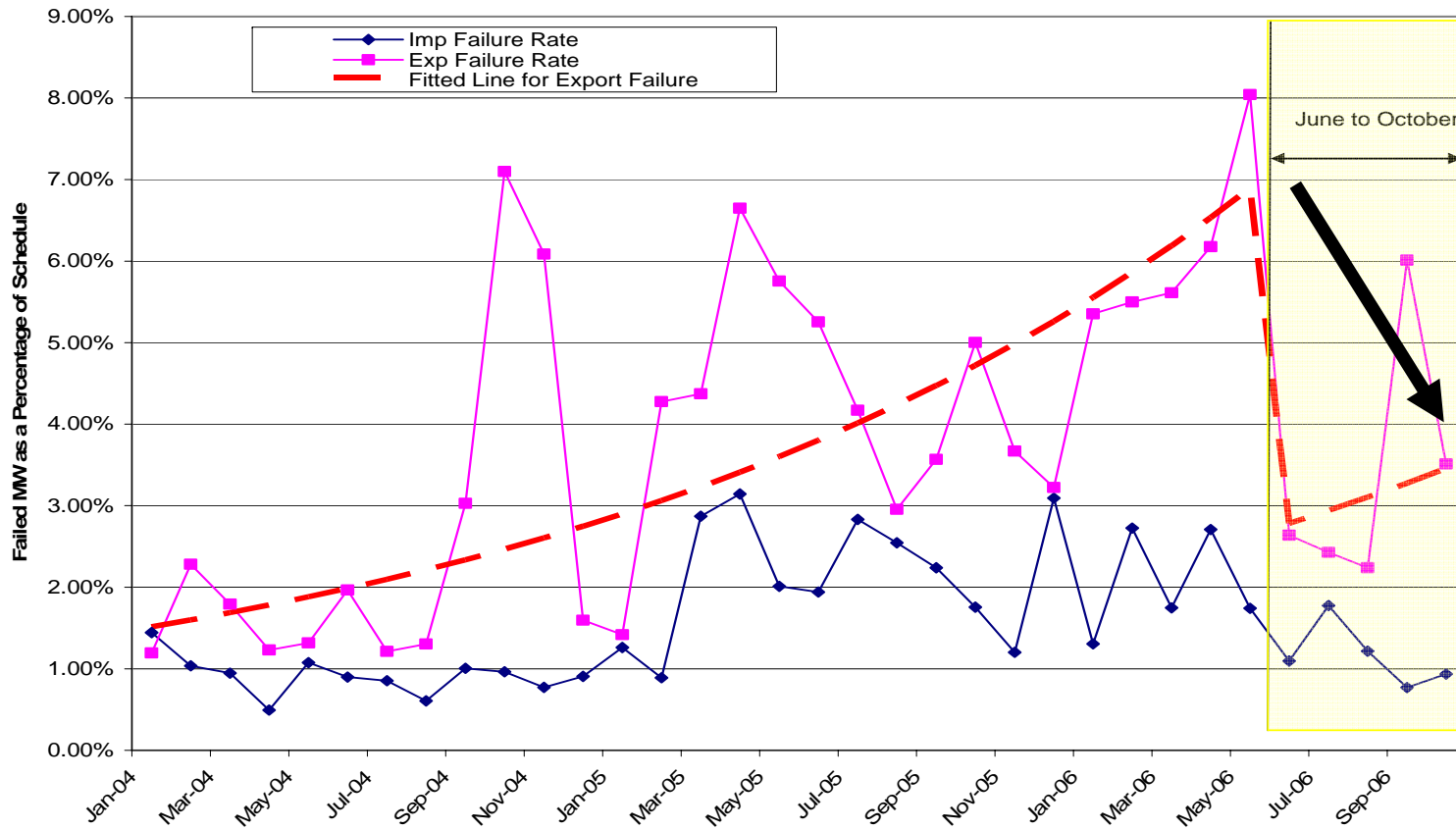


January 24, 2007

IESO Administered Markets
May – October 2006







- Panel is observing that the Global Adjustment is dampening the typical consumer's exposure to the month to month volatility in the HOEP
- The "effective price" that Ontario loads pay or ultimately pay is the HOEP plus or minus the Global Adjustment minus the OPG Rebate.
- For wholesale loads, the adjustment occurs at the end of the month and is based on their actual consumption during the period.
- For RPP customers, the adjustment is delayed and applied to future consumption.
- Recent trend seems to be for effective price to be higher than HOEP

Monthly HOEP versus Effective HOEP

