

The purpose of this paper is to provide the IESO's response to the Market Surveillance Panel Report - November 2007 – April 2008.

The IESO appreciates the fact that the Panel has ranked the recommendations and with the MSP perspective in mind the IESO has, for each recommendation, identified a priority based on considerations not limited to the current and past MSP recommendations.

Recommendation 3-7 (Chapter 3, section 4.1)

The MSP recommends that the IESO explore a solution to the emerging problem posed by recallable exports that are designated for Control Action Operating Reserve (CAOR), which induce counter-intuitive prices when rejected by the New York Independent System Operator and the Midwest Independent Transmission System Operator.

The MSP classified this recommendation as price fidelity.

IESO Response

With recallable exports no longer being accepted by neighbouring jurisdictions, the IESO has proposed to stakeholders that CAOR be removed from pre-dispatch as it is currently resulting in systemic transaction failures, causing reliability concerns and unnecessary distractions for operations staff at the IESO and workload at trading organizations. This change would eliminate the possibility of this issue having any negative pricing impacts. Associated with this recommendation, the MSP recommended that the IESO explore the re-introduction of recallable exports as they represent a potential efficiency gain across markets. The Market Pricing Working Group is addressing the potential for sale of operating reserve to other jurisdictions and this possibility will be addressed in that effort.

Recommendation 3-6(2) (Chapter 3, section 3.3)

The MSP restates the recommendation in its December 2007 report that curtailed exports (or imports) for internal resource adequacy ('ADQh') should not be removed from the unconstrained schedule in order to ensure that actual market demand (or supply) is not distorted.

The MSP classified this recommendation as price fidelity.

IESO Response

This is a standing issue before the Market Pricing Working Group under IESO Stakeholder Engagement plan (SE 67). In the fall, the IESO will review all standing issues with the MPWG in an effort to establish the work priorities for 2009. This item will be discussed at that time and its priority will be established relative to other standing issues.

As stated in response to the December 2007 report, there are several issues regarding the appropriate market price during curtailment of exports (imports) due to adequacy. The IESO's current practices are based on the belief that the resultant price impacts of curtailed exports do not represent a distortion. Not removing these exports from the unconstrained algorithm would also result in further differences between the constrained and unconstrained sequences, which would create an additional uplift burden for Ontario consumers and would be opposite in direction from the IESO's goal of aligning pricing with actual dispatch. However, the IESO is sensitive to counter-intuitive prices and as stated previously will consider this within the policy review of SE-67.

Recommendation 3-8(1) (Chapter 3, section 4.2)

To avoid distorting market prices, the MSP recommends that the IESO maintain the Operating Reserve requirement when Operating Reserve is activated in response to Area Control Error (ACE).

The MSP classified this recommendation as price fidelity.

IESO Response

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The IESO's current practices are based on the fact that under NERC and NPCC rules, if operating reserve is implemented, then the reserve does not have to be reinstated immediately – effectively temporarily relaxing the operating reserve constraint. However, the IESO is sensitive to counter-intuitive prices and as part of the SE-67 policy review noted in the previous response, the IESO will consider the impacts on dispatch volatility and pricing.

Recommendation 3-6(1) (Chapter 3, section 3.3)

For interjurisdictional transactions that fail because of market participants' ('OTH') or external system operators' actions ('TLRe' and 'MrNh'), the MSP recommends the IESO revise its procedures to avoid distorting the unconstrained schedule. This would prevent counter-intuitive pricing results (and would allow traders in those instances to receive the Congestion Management Settlement Credit payment consistent with other situations where such payments are currently available).

The MSP classified this recommendation as price fidelity.

IESO Response

The IESO has concerns that implementation of this recommendation could result in some significant unintended consequences in the domains of pricing and interjurisdictional trade. The IESO will document these concerns in the near future.

Recommendation 2-2 (Chapter 2, section 2.2.4)

The MSP reiterates the recommendations in its December 2006 and June 2007 reports, respectively, regarding Shared Activation of Reserve (SAR), and prompt replenishment of the Operating Reserve requirement levels. In addition, the MSP recommends the IESO review the application of Regional Reserve Sharing (RRS) because the current treatment of RRS in the unconstrained sequence also induces counter-intuitive prices.

The MSP classified this recommendation as price fidelity.

IESO Response

As part of the stakeholder engagement plan “Operating Reserve Initiatives (SE-37),” the IESO and stakeholders have considered what, if any, action should be taken for the activation of SAR. The IESO presented the costs and benefits of this action to the MPWG on Feb 7, 2007. Based on stakeholder feedback the next step would be to study the reciprocal action when the IESO delivers SAR. Regarding RRS treatment, the IESO will include this recommendation into SE-37 for stakeholder consideration.

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Recommendation 2-1 (Chapter 2, section 2.2.1)

The MSP reiterates the recommendation in its June 2007 report that the IESO should review the 700 MW Net Interchange Scheduling Limit (NISL). This review should take into account the effects on potential efficient exports from Ontario in addition to the import issues raised in the MSP's prior report.

The MSP classified this recommendation as dispatch.

IESO Response

The IESO understands that a binding NISL can have positive and negative affects on the market's efficiency. There will always be a balance between too low a NISL that, as the MSP points out, may affect efficient trade and too high a NISL limit that may lead to “top-of-hour” ramp driven pricing that can interfere with issues of price fidelity and market efficiency and dispatch outcomes that can have negative effects on participant's equipment. New reports published recently will help participants manage binding NISL events. The IESO retains the ability to change the NISL value during reliability events.

Without the benefit of a rigorous study, it is the IESO's judgement that 700 MW is a reasonable value for the NISL. The IESO, with the new NISL reports, will continue to monitor the frequency and impact of binding NISL events to determine any future actions.

Recommendation 3-8(2) (Chapter 3, section 4.2)

If the IESO believes that it must maintain a higher standard than the NERC Control Performance Standard, the MSP recommends that the IESO conduct a cost-benefit analysis comparing alternatives for responding to Area Control Error (ACE) deviations, that is: providing more Automatic Generation Control (AGC); using One-Time Dispatch (OTD); using Operating Reserve Activation (ORA); and establishing a capability to re-run the dispatch algorithm on demand.

The MSP classified this recommendation as dispatch.

IESO Response

See below 3-8(3).

Recommendation 3-8(3) (Chapter 3, section 4.2)

In the interim, until a cost-benefit study of the alternatives for handling ACE deviations is completed, in accordance with Recommendation 3-8(2), and assuming the IESO adopts Recommendation 3-8(1) regarding the maintenance of the Operating Reserve requirement level when Operating Reserve is activated for ACE, the MSP recommends that the IESO should use ORA instead of One-Time Dispatch to deal with negative ACE whenever possible.

The MSP classified this recommendation as dispatch.

IESO Response

The NERC control performance standards are undergoing significant change. The IESO is currently participating in a NERC Balancing Area Ace Limit (BAAL) trial. It is believed that meeting this standard would require less frequent generation changes as once performed to meet the Control Performance Standards (CPS).

The IESO's current actions are based on a belief that it is more efficient to use an OTD than an ORA and consistent with this approach the IESO includes these considerations when developing new systems and procedures. The IESO has presented a paper to the Technical Panel outlining the rationale for use of OTD. This document can be found at <http://www.ieso.ca/imoweb/pubs/tp2007/tp199-3c-Paper-ORA-vs-Energy-Dispatch.pdf>.

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Recommendation 3-5 (Chapter 3, section 3.1)

The IESO is planning to publish the supply cushion on an hourly basis. Its current calculation, however, does not represent actual supply capability. The MSP recommends that the IESO refine its formula to take into account forced outages, deratings, and import capabilities at the interties.

The MSP classified this recommendation as transparency.

IESO Response

This supply calculation is based on offered energy in the market. This is consistent with the capacity calculation that is published in the System Status Report and the IESO believes that being consistent with the application is important as it is used for OPA program integration. The IESO will need to consider any changes to other processes. While the recommendation represents a reasonable change, for the reasons stated above, the IESO currently has assigned a low priority to this change.

Recommendation 3-3 (Chapter 3, section 3.1)

The MSP recommends that the IESO publish generating unit output using a one-hour lag rather than the current two-hour lag.

The MSP classified this recommendation as transparency.

IESO Response

The IESO agrees with the idea of transparency and will consider the feasibility of implementing this recommendation.

Recommendation 3-4 (Chapter 3, section 3.1)

The MSP recommends that when the System Status Reports indicate that a generating unit of greater than 250 MW has been forced from service, the IESO should also disclose the fuel type of the unit in order to increase the information available to all market participants regarding future market conditions.

The MSP classified this recommendation as transparency.

IESO Response

The IESO agrees with the principle of providing more information to the market participants. Because interested participants can generally use the generation disclosure reports to extract this information, the IESO has assigned a low priority.

Recommendation 3-2 (Chapter 3, section 3.1)

The MSP recommends that the IESO publish masked bid and offer data on a four month time lag.

The MSP classified this recommendation as transparency.

IESO Response

The IESO does not disagree with the recommendation however this would need stakeholder feedback.

The IESO will establish an SE in 2009 to request written responses from stakeholders regarding their interest or concerns with publishing this information.

Recommendation 3-9 (Chapter 3, section 5)

The MSP recommends that the IESO review the benefits of constrained off payments with a view to their discontinuation.

The MSP classified this recommendation as hourly uplift payments.

IESO Response

This recommendation has been discussed on numerous occasions. This would be a fundamental change to the current market design and would have pricing implications. The IESO considers this as low priority.

Recommendation 3-1 (Chapter 3, section 2.2.4)

As market supply conditions have improved, an increasing fraction of Intertie Offer Guarantee (IOG) payments is being paid in hours when there appear to be negligible reliability concerns. The MSP recommends the IESO review the real-time IOG program and determine if it is providing commensurate improvements in reliability.

The MSP classified this recommendation as hourly uplift payments.

IESO Response

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