

Revision III - Update April 7, 2011. See Section VII. Stakeholder Engagement Schedule

I. Summary

The purpose of this stakeholder engagement is to review the current implementation of Control Action Operating Reserve (CAOR) standing offers in the IESO-administered markets to address the following concerns raised by stakeholders:

1. Whether the current pricing principle and structure of CAOR is correct and/or interfering with market participant operating reserve offers; and
2. The market and pricing impact of the removal of CAOR from pre-dispatch in September 2008.

This initiative will be of specific interest to all market participants who transact in the operating reserve market.

Reliability standards allow the IESO to consider the demand relief that would result from the use of 'out-of-market' control actions to meet the Ontario operating reserve requirement. The demand relief from these control actions, when contributing to meeting the Ontario operating reserve requirement, is termed CAOR. Standing offers for CAOR have been in place in the IESO-administered markets since 2003 to improve the transparency and to mitigate the pricing impacts when these control actions are used to meet the operating reserve requirement. In September 2008, the IESO removed the CAOR standing offers from pre-dispatch to address operational concerns.

This stakeholder engagement plan has been developed to define the opportunity for stakeholder involvement in the study of control action operating reserve.

II. Introduction

Control Action Operating Reserve gives the IESO the ability to consider the demand relief that would result from the use of out-of-market control actions to meet the operating reserve requirement. This is used when the market cannot provide enough supply to meet the forecasted demand because there are insufficient market offers and bids to fully satisfy energy and operating reserve requirements. Some of these control actions include disregarding the 30-minute operating reserve requirement, 3% and 5% voltage reductions and recalling exports. CAOR scheduling is accomplished through standing offers in the IESO reserve markets.

The IESO is reviewing the current implementation of CAOR standing offers to address stakeholder concerns with the current pricing and structure. The review will look at the market efficiency, market prices and reliability impacts of the current pricing and structure as well as changes to the pricing and structure.

Background

Prior to August 2003, when the IESO expected or identified an operating reserve shortage in an upcoming interval due to insufficient operating reserve market offers, the IESO manually reduced the operating reserve requirements by the amount of the identified or expected shortfall. This decrease in the reserve requirement resulted in a drop in overall market demand, causing the market clearing price to fall. This signalled an abundance of market resources when there was actually a shortage condition – this is referred to as counter-intuitive pricing.

The IESO Board approved a market rule amendment ([MR-00235-R00-R05](#)) on July 3, 2003 which introduced 200 MW of Control Action Operating Reserve (CAOR) standing offers in the market in both the pre-dispatch and real-time constrained and unconstrained sequences. The control actions are scheduled when they are economic rather than on an ad-hoc basis when shortage conditions occur. Initial implementation of these standing offers was limited to the inclusion of 3% voltage reduction as an operating reserve source.

Following this, in October 2003, the IESO introduced an additional 200 MW of CAOR standing offers in the market which resulted in a total of 400 MW. In November 2005, to further reduce instances of counter-intuitive pricing, the IESO introduced an additional 400 MW of CAOR standing offers, bringing the total to 800 MW. This was added in real-time, not in pre-dispatch. In September 2008, the IESO removed the CAOR standing offers from pre-dispatch to address operational concerns.

III. Stakeholders

A review of the Control Action Operating Reserve will be of primary interest to all market participants who transact in the operating reserve market. As CAOR standing offers affect operating reserve market prices and energy market prices, through co-optimization of energy and operating reserve markets, this initiative will be of general interest to all stakeholders.

IV. Decision Making Process

All stakeholder views will be provided to the IESO management. Any decisions, along with rationale will be fully communicated to stakeholders, along with an explanation of how their input was taken into account.

The IESO will consider all input in this decision and will use this input to develop options that try to address differing points of view. Any changes may require a management decision, a Board decision, rule changes, and/or policy changes.

V. Goals, Objectives, and Overall Approach

The implementation of this stakeholder engagement plan will be in accordance with the IESO's approved [stakeholder engagement principles](#). The plan will be subject to review and update as the process evolves and stakeholder comments are incorporated, and as revisions are warranted.

Goal

The IESO will be conducting analyses on the current and possible changes to the pricing and structure CAOR standing offers and will be asking stakeholders for their feedback on the results. This feedback will assist the IESO in their recommendation to the IESO Board.

Objectives

To provide stakeholders the opportunity to provide feedback on the analysis of control action operating reserve and on any recommended changes.

Approach

The plan will be subject to review and update as the process evolves and stakeholder comments are incorporated, and as revisions are warranted.

The stakeholder engagement approach will be stakeholder consultation including written submissions by stakeholders, face-to-face dialogue, as well as public postings of information and proposals.

Web-based postings provide all interested stakeholders with an efficient low-cost method to be informed with the opportunity to communicate their views via e-mail to stakeholder.engagement@ieso.ca. All stakeholder input will be posted on the IESO website.

VI. IESO Sponsor

| Name | Title | Department | Phone Number | E-mail |
|-------------------|-----------------------------|----------------------|----------------|--|
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VII. Stakeholder Engagement Schedule

| Stakeholder Engagement Schedule | | |
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| Activity | Expected Actions | Target Date for Completion |
| 1. Initial discussion of the issue at Market Pricing Working Group. | Dialogue – stakeholder input | Completed August 19, 2008 |
| 2. Discussions with the Market Pricing Working Group regarding the options for pricing control action operating reserve. | Dialogue – stakeholder input | Completed October 29, 2008 |
| 3. Deadline for comments on the pricing options presented. | IESO to post feedback from stakeholders. | Completed November 14, 2008 |
| 4. Work plan and next steps discussed with the Market Pricing Working Group. | Deliberation – stakeholders to provide | Completed December 2, |

| Stakeholder Engagement Schedule | | |
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| Activity | Expected Actions | Target Date for Completion |
| | input | 2008 |
| 5. Post and communicate stakeholder engagement plan. | Stakeholders to provide written feedback. | Completed December 4, 2008 |
| 6. Deadline for written input from stakeholders on the stakeholder engagement plan. | IESO to post feedback from stakeholders. | Completed December 18, 2008 |
| 7. Presentation to Market Pricing Working Group on analysis. | Dialogue – IESO to gather feedback from stakeholders. | Completed February 3, 2009 |
| 8. Publish revised stakeholder plan, post “CAOR-Study Questions”(prepared by IESO) and “CAOR and Reserve Shortage Pricing in Neighbouring Markets” (prepared by OPG). | Publish documents for stakeholder feedback. | Completed September 30, 2010 |
| 9. Deadline for written feedback. | Stakeholders to provide written feedback. All feedback to be posted. | October 21, 2010 |
| 10. Publish revised stakeholder plan. | | April 7, 2011 |
| 11. Post IESO position paper. | Publish documents for stakeholder feedback. | April 28, 2011 |
| 12. Deadline for written feedback. | Stakeholders to provide written feedback. All feedback to be posted. | May 12, 2011 |
| 13. Stakeholder meeting/conference call to review and discuss results. | Dialogue – stakeholder input | May – June 2011 |
| 14. Provide recommendations based on analysis to IESO management and Board (if required). | Decision | June, 2011 |
| 15. Implementation of recommendation. | | Q3, 2011 |