

Intertie Jurisdictional Trading Standing Committee



Date held: <i>March 5, 2008</i>	Time held: <i>8:30 AM</i>	Location held: <i>Clarkson – Viewing Gallery</i>
Invited/Attended:	Company name:	Attendance Status: <small>(A)ttended; (R)egrets; (S)ubstitute</small>
Gary Wight	Constellation Energy	A
Shane Harwood	Coral Energy	A
Gene Lung	Direct Energy Market Limited	A
Mark Mueth	DTE Energy Trading	A
Erik Bellavance	Hydro Quebec	A
Bob Friesen	Northpoint Energy	A
Nicole Sali	Northpoint Energy	A
George Radan	Silverhill Limited	A
John Tintor	Silverhill Limited	A
Paul Kerr	Shell Energy	A
Chris Loughren	Bruce Power	via Teleconferencing
Raymond Wetzel	Constellation Energy	via Teleconferencing
Michael Pavo	Constellation Energy	via Teleconferencing
Shaun Ratz	EPCOR Merchant & Capital	via Teleconferencing
Carl Ecelbarger	HQ Energy Services	via Teleconferencing
Kelly Hunter	Manitoba Hydro	via Teleconferencing
Richard Gell	Ontario Power Generation	via Teleconferencing
Linda Leung	Ontario Power Generation	via Teleconferencing
Brian Bell	Ontario Power Generation	via Teleconferencing
Scribe: <i>Martin Lodyga</i>		
Please report any corrections, additions or deletions e-mail to martin.lodyga@ieso.ca		

All meeting material is available on the IESO web site at: [Intertie Trading Standing Committee](#)

Document output of each agenda item below:

Agenda Item #1: Administration

Dave Robitaille welcomed the group and invited members to introduce themselves.

The minutes of December 7, 2007 were accepted as written, with no comments from members. They will be posted on the web as final and a notification email will be sent at the time of posting.

Agenda Item #2: IJTSC Initiatives List Update

The second portion of the administrative section of the agenda dealt with a review of the IJTSC Prioritized Initiatives List. The document was updated after the finalization of its priority at the December meeting, and now includes additional details regarding the status, background, outstanding actions and updates for each item.

Agenda Item #9: Additional Business - Linked Wheel – Long Term Solution

The agenda item was moved up in the sequence of items, in order to allow John Mackenzie of the IESO to provide an update of the long term solution of the linked wheel initiative.

The IESO has been involved in ongoing talks with NYISO on the operation of their tool and its evaluation of linked wheels. The purpose of the talks is to determine whether a similar technique can be applied in Ontario's market to achieve the flexibility sought by the IJTSC members.

Long Term Solution Presentation is available at: [Economic Dispatch of Linked Wheels – Status of Long Term Solution](#)

Future tasks include evaluating the cost of implementing a tool change to allow for a congestion pricing based assessment of linked wheels as well as a limited scenario-type analysis of efficiency impacts to Ontario's markets.

Member Questions, Comments and Discussions

Discussions began with a participant voicing a favorable opinion of New York's approach to linked wheels, where an energy trader only needs to submit a single transaction that contains a single price amount. The pricing entry is representative of the amount the trader is willing to pay for a simultaneous energy purchase and sale of a linked wheel transaction. The format is beneficial; as it communicates the exact pricing amount the trader is will to pay for the transaction.

A participant provided a scenario of a NY linked wheel transaction, that together with locational marginal pricing (LMP) and congestion exposed the transaction to a penalty amount greater then the submitted offer. Subsequent conversation mentioned alternative jurisdictional

areas (PJM & MISO) that had positive properties in their treatment of linked wheels. The discussions lead to an agreement that it would be worthwhile for the IESO to explore not only New York's approach to Linked Wheels, but also include PJM and MISO in the comparison. The room was polled for contacts and reference material on PJM and MISO assessment of linked wheels that could be used for the comparison. Ray Wetzel of Constellation Energy volunteered to contact Dave Robitaille with contact information.

ACTION – The IESO to include a comparison chart of linked wheel assessments and scheduling treatments in the NY, PJM and MISO areas for consideration in the Long Term Solution

Participants were surprised at the reported success rate of New York linked wheels that are offered, attain a schedule and flow in real time (97-99%). It was proposed that the reason for such a high value could be the fact that linked wheels are predominantly offered/bid at the maximum price of +/- \$999 and are as a consequence price takers. A potential explanation provided by a traders behind the pricing, is that most of NY linked wheel volume could be transacted day-ahead where the submitted prices are locked in, but are changed to \$999 in real-time in order to maximize success.

ACTION – The IESO to clarify with New York as to the breakdown of linked wheel transactions between day-ahead and real-time in order to understand whether there is an underlying reason behind the high success rate of offered linked wheels in NYISO.

Participants were asked whether there are any specific conditions that have contributed toward the volume increase of linked wheels during January and February of this year. A response was given by George Radan of Silverhill Limited. Historically, congestion has not been an issue, the sudden increase in volume could be attributed to new participants entering the market. As congestion increases, less linked wheels will be offered into the market. This is a result of the risk associated with price during congestion that causes behaviors to change. Giving energy traders the ability to control risks through economic dispatch, will serve to limit congestion caused by linked wheels. As a consequence congestion will be reduced, when pricing extremes on the interties remove non-economic offers, as opposed to current requirements which keep all linked wheels in the schedule because of the +/- MMCP requirement.

To conclude the discussions, participants were polled on perceived benefits that justify the capital costs required to implement the changes necessary for flexible assessment of linked wheel transactions. The IESO inquired whether the participants could comment on future linked wheel volumes, and direction of wheeled flows. The response received was that those parameters are mostly related to market conditions of surrounding areas. If energy traders are given more control of risks associated with linked wheels, activity would increase but be managed through economic dispatch. As for the predominant path, it would be similar to today's flows which is sourced in MISO and sank in NY.

Agenda Item #3: Linked Wheel – Interim Proposal

Tabatha Bull of the IESO updated the status of the four options identified at the December meeting of the IJTSC as possible proposals that would minimize the risk involved with the linked wheel offer and bid requirement.

1. Changing the offer requirement of the import portion of the wheel to -\$50
2. Removing an offer requirement of the import portion of the wheel
3. Changing the bid requirement of the export leg to a “multiplier” or adder to the pre-dispatch price
4. Evaluating the linked wheel at the 2 hour out PD – economic offers for both legs

On January 21st, the IESO sent an update regarding the four options, the update is available at: [Linked Wheel Transaction Interim Proposal Update](#)

ACTION – IESO to work towards the implementation of Option #1: changing the offer requirement of the import portion of the wheel up to -\$50, by early April. Notice of implementation will be in the form of an IMDC (Interim Market Document Change) which will be posted for at least 5 days prior to implementation and a notification email will be sent at the time of posting. The IESO will continue to work with NYISO on a modification of their toolset that will accommodate option #2: removing an offer requirement of the import portion of the wheel.

FOLLOW UP NOTE TO MEETING: Option #1 was implemented hour ending 1 on March 28, 2008.

Member Questions, Comments and Discussions

A participant was surprised to learn that NYISO would automatic deny tags modified by Ontario, the belief was that NY allows such actions between PJM. The IESO informed participants that NY’s tool is automated, and the denial would be similar to one that comes about from a market participant modification of offer data within NY’s mandatory window.

A participant concurred that they have seen this automatic denial.

ACTION – IESO to verify with NY whether reasons for tag denial is similar with PJM as with Ontario.

Agenda Item #4: Linked Wheel – Volume and Failure Tagging Changes

Tabatha Bull of the IESO presented information regarding behavioral changes in the market related to linked wheels.

As of January of 2008, the IESO has been experiencing a significant increase in the number of linked wheel transactions and subsequent failures when compared to historical amounts. A large number of these failures have been for economics in external markets. Because the failure of linked wheels could cause reliability issues and economic inefficiencies, the IESO is proposing to change the tagging type applied to failed linked wheel to a type that would draw failure charges similar to all other transactions (from a TLRe tag to a OTH tag). The intent of the change is to motivate behaviors that would see trading parties to ensure that their schedule transactions flow or to remove the associated bid and offer outside of the mandatory window in anticipation of their failure.

Member Questions, Comments and Discussions

Participant voiced disagreement with the proposal, based on the fact that linked wheel transactions already receive failure penalties in areas where the transactions are sourced and sunk. By exposing linked wheel transactions to additional penalties the IESO is not effectively managing the problem.

A participant further commented that rather than apply penalties the IESO should implement an economic assessment process for linked wheel transactions, which would remove ineligible wheels from the schedule. Participants agreed that if an economic linked wheel assessment was in place, then a linked wheel failure charge could be applicable since participants have control over the way they offer linked wheel transactions. With the present requirements for linked wheels, participants have no control and have to seek alternative options such as failing in other markets.

The IESO gave an example of a single day where hour upon hour linked wheel transactions failed, adding up to a daily total in excess of 9000MWh of failed linked wheels. The proposal is aimed to incent participants to make the necessary adjustments, and remove transactions that will not flow in real-time.

Participants responded that although transactions fail hour to hour, it is a tough call to make regarding future transactions based on the previous hour. Although current market indicators may be pointing towards a certain result, conditions change with time, which could alter the final result.

Participants stated that the implementation of a failure charge would be greatly punitive since both the import and export of a linked wheel would be eligible for an intertie failure charge. As a result, it was suggested that failure charges be only applied to linked wheels during hours

when there is no congestion. It was stated that Participants have no control whether they flow based on current linked wheel bid and offer requirements. The IESO reminded participants that the intertie failure charge does not look at offer/bid pricing, the calculation is based on the net market effect which is the difference between pre-dispatch and real time energy pricing.

Participants inquired into the effect of linked wheel failures, since we already know the quantity of failures, could the IESO look at the number of transactions that were displaced.

Participants raised the issue whether the IESO could look at whether new trading entities were responsible for the recent increase in linked wheel failures and whether Market Assessment and Compliance could approach the parties responsible in order to correct behaviors.

The IESO responded that actions under discussion are not intended to single out individuals, the goal is to resolve potential issues. Although the issue in question is being caused by the few, the vulnerability is there, and could be adopted by others.

Agenda Item #5: New York Failures Update

Dina Shoukri of the IESO provided an update on NY failure rates as a result of the revised treatment of non-security failures on the New York intertie. The treatment came into effect on December 20, 2007, and aimed to rectify the treatment of failures that have been communicated by NY as security failures but have always been due to economics. The presentation included import and exports statistics of failure volumes and failure rates on the New York intertie prior to the implementation as well as in the months since.

The presentation is available at: [IESO-NYISO Intertie Transaction Failures](#)

Member Questions, Comments and Discussions

(1) Participants requested that the IESO provide additional statistics related to the number of successful transactions, number of failed transactions and the transaction volume for the periods shown in the presentation. The IESO committed to providing the requested data on an ongoing basis.

Agenda Item #6: Counter Intuitive Failure Charges

Martin Lodyga of the IESO provided a presentation aimed at initiating a discussion related to counter intuitive failure charges.

The presentation is available at: [Counter Intuitive Failure Charges](#)

Member Questions, Comments and Discussions

(1) Brian Bell inquired as to when and where his previous request of moving the basis of the Intertie Failure Charge calculation from the 5-minute MCP to the hourly HOEP value would

take place. The assessment will be performed under a different forum than the IJTSC, one that includes Market Assessment and Compliance Division input. Brian Bell requested that his request remain within the IJTSC and that it remains connected to the counter intuitive failure charge.

ACTION – The IESO will provide a status update of the requested transfer of the Intertie Failure Charge to an hourly HOEP price.

(2) Brian Bell reiterated that the purpose of the inquiry of counter intuitive failures was too create an opportunity to initiate conversation with the IESO regarding intertie transaction failures that benefit the market. An example was provided of an export failure that was assessed a large failure charge during a time when the pre-dispatch price was evaluated at \$1500 but the real time price fell to \$100. Although the failed export benefited the market during an energy shortfall (based on the pre-dispatch energy price), the subsequent notice of disagreement (NOD) that was submitted was rejected since there are no alternatives to the process. The following is a list of suggested criteria that should be considered as being valid for evaluation of counter intuitive failures.

- 1.) If the IESO is cutting exports due to energy adequacy concerns, the associated failure charge with exports that fail should be open to review.
- 2.) Using a multiple of the hourly bias points to trigger potential periods for further investigation/exception.
- 3.) Exceptions during any events which are not visible to participants but result in unusual changes between the pre-dispatch and real-time prices. An example would be a large generator that was scheduled to be unavailable during pre-dispatch, but returns to operation in real-time, which results in a price decrease.
- 4.) A pre-determined difference between pre-dispatch and real-time pricing (a set percentage) that would allow for counter intuitive consideration.

(3) Eric Bellavance asked under what forum the issue of counter intuitive charges be discussed and settled on. The IESO responded that the issue is being undertaken as part of the IJTSC initiatives. There was some concern voiced by participants that a rigid and too defined criteria might exclude other valid examples in the future because they were excluded for the initial discussions.

(4) George Radan commented that issues do exist with failure charges, and if an option to traders was available that allowed a one-hour bid and offer window, counter intuitive failures would not be an issue.

(5) Jack Lubek of the IESO commented that at those times there is an apparent counter intuitive charge situation, we should also be looking at the conditions that would lead to the export being

scheduled in the pre-dispatch when the price of energy is at \$1500. In addition, if counter intuitive failure charges are being considered, should the IESO also be considering applying a failure charge to a failed export transaction which otherwise avoids a charge because there is a corresponding import that failed? Should both be assigned a failure charge?

ACTION – The IESO will work on a discussion paper related to counter intuitive failure charges with a focus on historical pre-dispatch and real-time pricing data.

Agenda Item #7: Stakeholder Engagement Update

Guy Springgay of the IESO provided a presentation updating the status of Stakeholder Engagement Initiatives that involve traders.

The presentation is available at: [Stakeholder Engagement Initiatives Involving Traders](#)

Agenda Item #8: Clarifying Treatment of TLRs in the Local Market Power Procedures

Jack Lubek of the IESO provided a presentation that clarified Market Manual 2.12 (Treatment of Local Market Power). The clarification was in regards to market participants who have local market power as the result of the application of the Transmission Loading Relief (TLR) process and have received congestion settlement credits.

The presentation is available at: [Clarifying Treatment of TLRs in the Local Market Power Procedures](#)

Agenda Item #9: Additional Business

George Radan brought forth the topic of CAOR and the method in which transactions are selected. Over the last couple of months Silverhill Ltd. has had a number of their firm transaction made recallable, which were subsequently not accepted by New York and cut from the schedule. It was observed that there have been times when their transactions with the highest bid are selected and other times when their transaction with the lower bid was selected. George cited an example when it was observed that both their highest and lowest transactions were curtailed. The IESO responded by referencing the market manual which states that CAOR transactions are chosen on a best effort economic basis,

George Radan did not feel that this was acceptable, given the lack of consistency observed over the last couple of months, an automated process (tool) should be put in place. Additionally, George Radan raised a concern related to CAOR selected transactions that are not accepted by New York, and whether traders should be compensated given the loss of opportunity.

Mike Pavo inquired as to why CAOR selection was taking place in the overnight hours, a time that theoretically should have the maximum amount of operating reserve available.

ACTION – The IESO committed to speaking to the Shift Operations Department regarding CAOR selection and ensuring that the procedure is followed on a more consistent basis.

Action Item Summary				
#	Date	Action	Status	Comments
1	March 5, 2008	The IESO department to include a comparison chart of linked wheel assessments and scheduling treatments in the NY, PJM and MISO areas for consideration in the Long Term Solution	<i>OPEN</i>	
2	March 5, 2008	The IESO to inquire with NYISO regarding the breakdown of linked wheel transactions between day-ahead and real-time in order to understand whether there is an underlying reason behind the high success rate of offered linked wheels in NYISO.	<i>OPEN</i>	
3a	March 5, 2008	IESO to work towards the implementation of Interim Linked Wheel Solution - Option #1.	<i>CLOSED</i>	
3b	March 5, 2008	The IESO will continue to work with NYISO on tool requirements in order to implement option #2.	<i>OPEN</i>	
4	March 5, 2008	IESO to verify with NYISO whether tag denial treatment of modified tags is similar with PJM as with Ontario.	<i>OPEN</i>	
5	March 5, 2008	The IESO will work on a discussion paper related to counter intuitive failure charges with a focuses on historical pre-dispatch and real-time pricing data.	<i>OPEN</i>	
6	March 5, 2008	The IESO committed to speaking to the Shift Operations Department regarding CAOR selection and ensuring that the procedure is followed on a more consistent basis	<i>CLOSED</i>	