

MR-00370: Limiting CMSC Payments for Exporters and Dispatchable Loads With Negative Bids

Inter-Jurisdictional Trading Standing Committee
June 2, 2010



- MR-00370: Summary
- Background
- Historical Constrained on Payments to Exporters
- Potential Impact on Efficient Exports
- Proposed Timelines
- Comments/Discussion

- Amendment proposal to limit CMSC payments for exporters/dispatchable loads when they submit bids with negative prices
 - Consistent with Recommendation 3-4 from Jan 2010 MSP report
- It is proposed that the price used for the CMSC calculation would be the lesser of \$0/MWh and the applicable energy market price
- This proposal would create more consistent treatment with the existing CMSC calculation for generators and importers who submit offers with negative prices
- On May 11th, the Technical Panel determined the amendment warrants consideration and assigned a high priority to developing the proposal

- The Jan 2010 MSP report identified an opportunity for exporters/dispatchable loads to obtain excessive CMSC payments through strategic bidding practices
- MSP noted a significant increase in constrained on payments to exporters who submit negative bids, especially in the Northwest
- Excess generation, transmission limitations, limited import/export capability at the Minnesota/Manitoba interties, and significant drop in demand frequently results in low or negative shadow prices in that zone

- Negative prices provide the opportunity for exporters/dispatchable loads to bid strategically to earn significant constrained on payments, resulting in higher uplift costs for Ontario consumers
- Example:
 - $P_D \text{MCP} = \text{HOEP} = \30
 - Marginal generator (or importer) sets the nodal/pre-dispatch shadow price with an offer of $-\$1,900/\text{MWh}$
 - An export that bids at $-\$1,899/\text{MWh}$ will be constrained on since DSO maximizes the gain from trade
 - Constraining on the export represents a lower cost solution (by \$1) relative to constraining off the generator
 - Result is $\$1,929/\text{MWh}$ constrained on CMSC payment to exporter

- IESO estimates from May 2002 to October 2009, CMSC payments to constrained on exporters totalled \$37M (approximately \$25M since Jan 2008)
- MSP noted that had CMSC payments been calculated based on a replacement bid of \$0 when exporters bid negative prices, savings to Ontario consumers would have been \$3.5M during the period Nov 2006 to Oct 2009
- In the absence of any limits on export/dispatchable load bid prices, frequency and magnitude of CMSC payments may continue to grow considerably due to the decline in load and persistent transmission limitations in the Northwest

- The IESO has performed an analysis on the potential impacts of using a replacement bid equal to the lesser of \$0 or MCP to assess whether the proposed changes would present an obstacle to efficient exports
- An efficient export occurs when power flows from the low cost area (i.e. the Northwest) to higher cost external markets such as MISO
- Based on preliminary analysis, it does not appear that reducing the magnitude of CMSC payments via this amendment proposal would unduly undermine market efficiency
 - Updated results will be presented to the Technical Panel at its June 8th meeting

- May 11th Technical Panel (TP) – Determined amendment submission warrants consideration, high priority – see <http://www.ieso.ca/imoweb/pubs/mr2010/MR-00370-Q00.pdf>
- June 8th TP – Amendment proposal – TP vote to post draft amendment on IESO website for 3 week stakeholder commentary period (June 10th to June 30th)
- August 17th TP – TP vote to recommend to the IESO Board
- Sept 10th Board of Directors – seek Board approval
- Effective date - **TBD**

- Comments/Discussion
- Pending TP vote to post for stakeholder comment, please provide written comments on this amendment proposal no later than June 30th, 2010 using the written submission form:

http://www.ieso.ca/imoweb/pubs/marketAdmin/ma_f1467_MR_AmendmentWrittenSubmission.doc