Transmission Rights Market Review – Feedback Form

Meeting Date: May 21, 2020

Date Submitted:	**Feedback Provided By:**	
2020/06/15	Organization:	MAG ENERGY SOLUTIONS
	Main Contact:	Alexandre Villeneuve
	Email:	[redacted]

Following the May 21, 2020 Transmission Rights Market Review webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following items discussed during the webinar. Background information related to these feedback requests can be found in the presentation, which can be accessed from the engagement web page.

Please submit feedback to engagement@ieso.ca by June 11, 2020. If you wish to provide confidential feedback, please submit as a separate document, marked "Confidential". Otherwise, to promote transparency, feedback that is not marked "Confidential" will be posted on the engagement webpage.

Stakeholder Feedback Table

IESO Requests	Stakeholder Feedback
How are Transmission Rights (TRs) used in practice by stakeholders?	There are 2 different objectives for market participants to buy TRs. 1- Financial speculation. TR buyers forecast congestion for the next period and bid based on a profit margin. Their presence is good for price discovery and contributes in reaching a valid auction price. Those bids increase cost for other market participants, but increase auction revenues for the IESO. They don't hedge, they speculate. 2- Hedging mechanism. TR buyers look to hedge congestion related to physical flows to minimize the risk. Those TR buyers may have a different analysis of the TR value because it is linked to a corresponding physical flow. Market participants will either use the first or second purpose of the TR, or sometimes both in the same auction.
Do TRs provide an appropriate or optimal hedge against congestion?	Yes, TR are doing what they are supposed to. When we buy TR, we feel that we have a hedge if unexpected pricing events increase congestion cost. The objectives of Ontario TR market are to enhance efficiency of intertie trades and to provide net benefits to ratepayers. We feel it reaches both objectives. It enhances efficiency of intertie trades by bringing more certainty to congestion cost. TR holders can implement flows and strategies based on TR results. Also it provides a benefit to ratepayers. Holding TR lowers intertie trading risk. TR holders may be willing to bid more MW and take more export positions because of the lower risk. This in turn will increase the intertie total congestion and then the return to ratepayers. The presence of a TR market increases revenues to ratepayers while also providing a valid hedging mechanism for intertie traders.
How do stakeholders manage the risk associated with TRs?	The risk for buying TR in the IESO is lower than buying FTR in the US because at the worst a market participant can lose the cost of the TR. However, the risk can be very real the higher the cost of the TR is. If a period does not go as planned, TRs can be very expensive with or without physical flows. Market participants can manage the risk by controlling the bids and quantity they submit. If more bid lamination were available, it would become easier to manage the risk by submitting more bids and more MWs at different prices.

What improvements to the current design would you suggest to help maximize the value of TRs and encourage greater participation in the TR market?	1- **Have clear market indicators.** It is important that market participants receive clear signals about congestion in order to structure their TR bids. It is working well in general. However, there is still room for improvement. Recently there was a market rule change that introduced a clawback on the settlement at the end of the month for TR holders when an intertie is reduced to 0 MW in one direction. However, the congestion stays in daily reports. This is not optimal. Over time it will hinder the evaluation of the historical value of TRs. It would be best if that congestion did not show at all. An alternative would be to have a final monthly report presenting the payments to TR holders per MW for each intertie. This report could also be annual when a TR annual period ends. Also, it would be an improvement to do the monthly auction at the latest possible time in the month. Doing so will reduce the TR risk with the bidding period closer to the starting date. It would improve price discovery and align auction results by allowing a more precise market forecast. These are 2 examples that the value of TR can be maximised by adding more transparency. 2- **More market lamination.** Currently a market participant can only submit one price/quantity bid. The number of bids for a single intertie could be increased from one to 5 to 10 bids per market participant to reach a better outcome at the auction for both the TR holders and the IESO. This bid lamination could bring more bids and more quantity in the TR market. 3- **Maximum TR sold based on line capacity.** The IESO already limits the monthly TR sold based on the capacity of the transmission line for the next month. However, sometimes the actual capacity of the line is less than the total TR sold for a month during a period of some days or even weeks. This means that the IESO collects less congestion revenues than TR holder's payment during that period. Also, from an hourly point of view this may result in sub optimal intertie schedules because TR holders are hedged against congestion. MAG would recommend to limit the number of TR sold in monthly auction to better align with line outages for the next month and to limit the occurrences of having days or weeks with more TR sold than line capacity. 4- **Bids that impact congestion but do not flow.** There can be differences between the MWs accepted to flow as seen in the IESO's adequacy reports and the actual flows on an intertie. Market participants are sometimes unable to schedule a transaction and get a confirmed TAG. It can be because of lack of ramp or transmission in US markets, or other reasons. Those cleared MW that are not implemented will still impact the final congestion at the intertie. The IESO do not receive any congestion revenue for those transactions. Also, the added congestion for a transaction that is

	not implemented creates extra cost for other transactions at the same intertie. It also impact TRs by increasing payment and then overtime increasing the cost of TR auctions. The impact is currently very real for the TR market by sending wrong price signals to participants based on congestion linked to transactions that never happened. After Market Renewal the impact will move from the TR market to the DA market. However, the IESO could look into the situation to correct the actual TR market. A possibility would be to recalculate the final congestion at the interties without the bids of TAGs not confirmed, but keeping all the other bids, including those that would have been accepted. Doing this would align actual intertie congestion with real actual flows. The new final intertie congestion calculation could be done between T-30 minutes and T where T is the start of the flow, without running the whole market simulation but only looking at interties. MAG is not sure if this is something that is possible to do, but we wanted to bring it up for discussion purposes. It would help maximise the TR market value by bringing market transparency.
To support the TR review, are there lessons learned from other jurisdictions that you could provide from your experience in trading elsewhere?	In the US FTR markets it is possible with intertie FTR to lose more than your bid for a FTR period, making FTR a riskier product. The IESO TR market market is different but offers similar benefits for market participants. Also, in general we see less FTR sold on the interties in the USA than in the IESO with similar line capacity and outages.