

# Market Development Advisory Group Transmission Rights Clearing Account Disbursement Methodology Review

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January 21, 2020

# Meeting Participation

- Webcast participation (including audio):
  - <https://www.meetview.com/ieso20200121>
  - Use the chat function to ask a question
- Teleconference participation (audio only):
  - Local (+1) 416 764 8640; Toll Free (+1) 888 239 2037
  - Press \*1 to alert the operator that you have a question;
  - Press \*0 for any other operator assistance
- There will be pauses throughout to ask questions; when asking a question, state your name and who you represent.
- The activities of the MDAG are guided by the IESO [Engagement Principles](#).

# Purpose

- This presentation provides an update on the TRCA Review. In response to stakeholder feedback on the TRCA disbursement methodology, the IESO will:
  - Delay the effective date of the proposed TRCA Market Rule amendments to November 2020
  - Provide greater detail on the decision to allocate all TRCA surplus funds to loads

## Agenda

1. Recap prior discussion and background
2. Review stakeholder feedback\*
3. Impact Analysis
4. Decision and Implementation Timeline

\* The IESO posted on the MDAG webpage the combined Meeting Notes, Summary Stakeholder Feedback and IESO Responses through engagement on the TRCA Disbursement Methodology Review

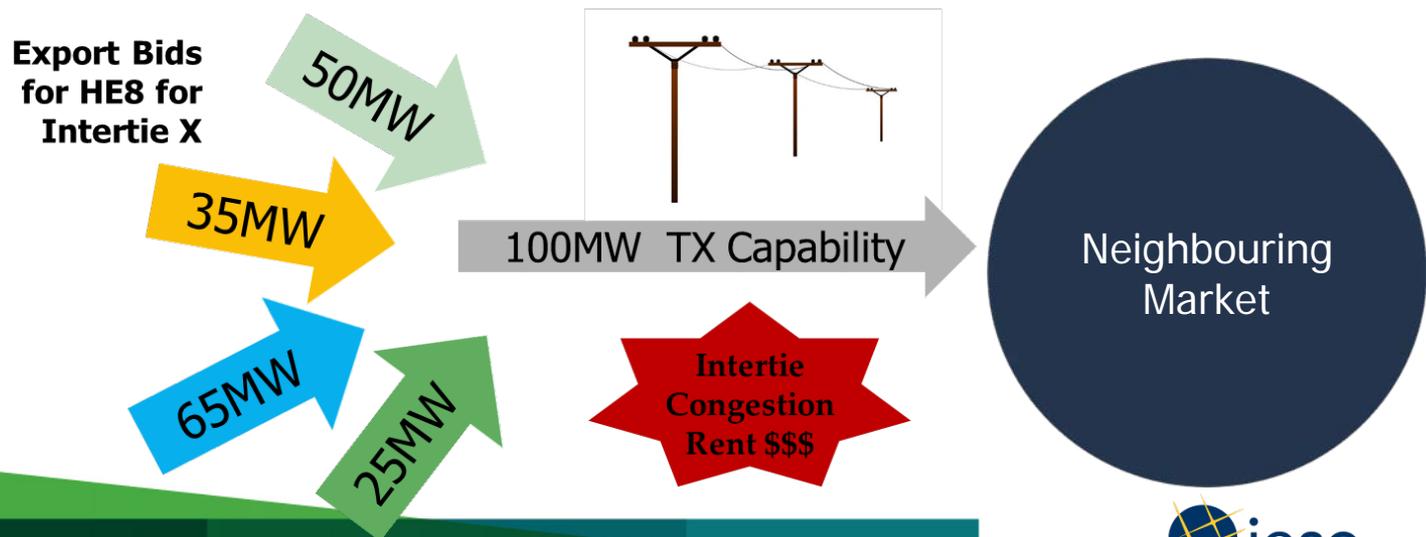
# Recap

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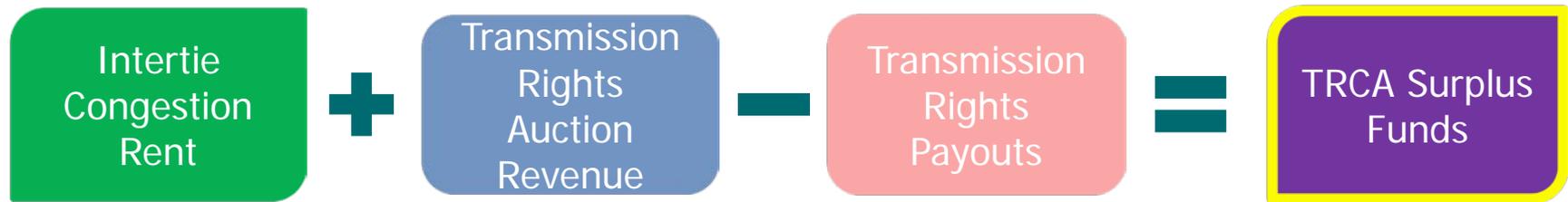
- The IESO engaged the Brattle Group to deliver a [public report](#) which recommends allocating 100% of the surplus funds to Ontario loads. The IESO indicated at the November 2019 MDAG meeting alignment with this recommendation and intent to implement by the May 2020 scheduled disbursement
- At December 2019 MDAG meeting, the IESO announced its decision to allocate all TRCA surplus funds to internal loads on a volumetric basis and May 2020 as the effective date
- Stakeholders provided feedback during and after the November and December 2019 MDAG meetings
- The IESO considered stakeholder feedback received and will address the feedback through today's presentation and the IESO's response to stakeholder feedback posted on the [MDAG webpage](#)

# Intertie Congestion

- Traders pursuing market opportunities compete based on price to access the capacity-limited interties
- When there is more demand for access from traders than an intertie's capability, the IESO decides who gets to flow based on which traders are willing to pay the most
  - The extra premium/discount paid by traders relative to the Ontario price is **Intertie Congestion Rent**
- Intertie congestion is set on an hourly and intertie path-specific basis



# TR Clearing Account



*Premium or discount traders pay relative to the Ontario price (the ICP). This “rent” is collected and added to the TRCA account.*

*Some traders buy transmission rights (TRs) to protect themselves against intertie congestion price risk.*

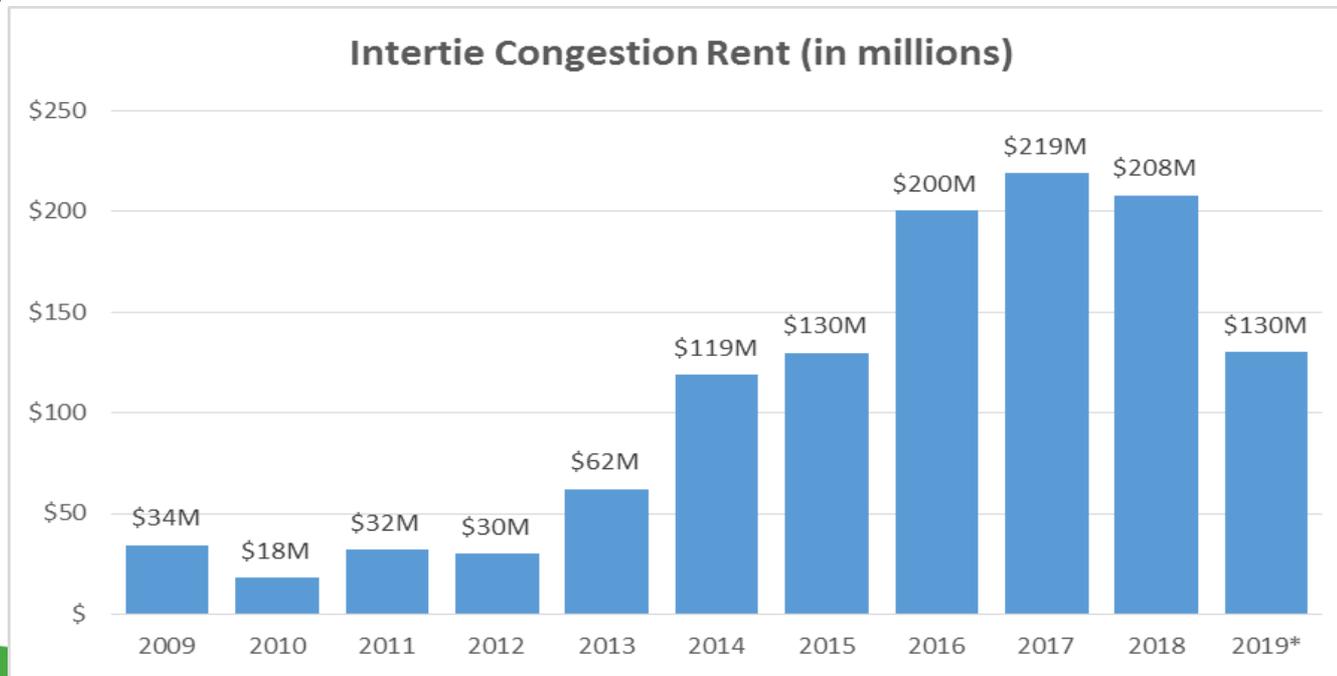
*The payouts owed to traders who have purchased TRs to hedge against intertie congestion price risk*

*TRCA balance above \$20 million is disbursed to market participants on semi-annual basis.*

- Currently TRCA surplus funds are allocated to load and exporters based on demand shares
- The TRCA Disbursement Methodology Review has been studying whether this methodology should change

# Source of TRCA Surplus

- Intertie congestion rent has significantly increased over the last 10 years (\$34 million in 2009 to \$208 million in 2018). A primary driver for the increase is the significant investments Ontario made into low marginal cost resources at a much faster rate than its neighbours, which has made Ontario's energy prices generally cheaper relative to its US neighbours

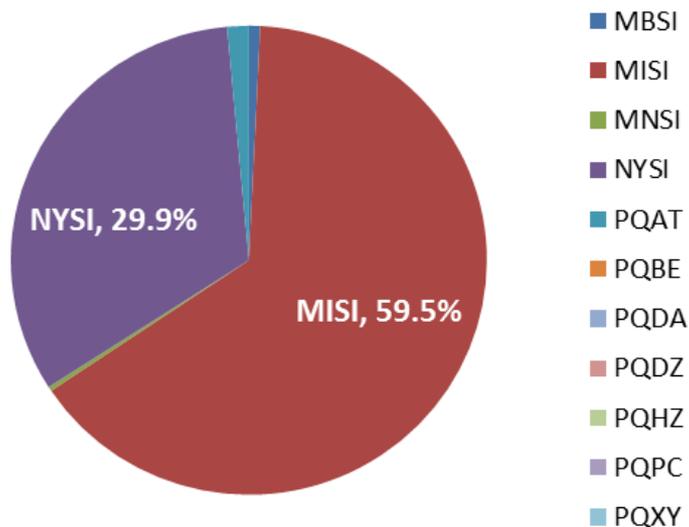


\* As of October 31, 2019

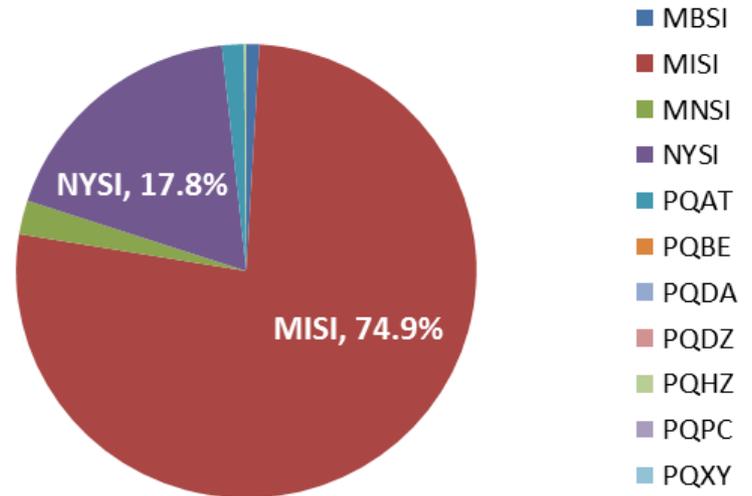
# Source of TRCA Surplus

- Congestion rent funds the TRCA surplus
- Vast majority (90-95%) of all the intertie congestion rent is collected from exports on MISI (Michigan) and NYSI (New York) interfaces.

2018 Export Congestion Rent By Tie



2019 (January - October) Export Congestion Rent By Tie



# Feedback Overview

# Feedback Overview

- The IESO appreciates the feedback received from stakeholders on this topic
- The feedback was categorized by the following themes:
  - Effective Date
  - Comparison with US markets
  - Export Transmission Service (ETS) Charge
  - Evaluation Framework
- The IESO posted on the [MDAG webpage](#) the combined Meeting Notes, Summary Stakeholder Feedback and IESO Responses through engagement on the TRCA Disbursement Methodology Review.

# Stakeholder Feedback

## Feedback Theme: Effective Date\*

Stakeholders expressed concerns over the effective date of May 2020 for the revised TRCA disbursement methodology

- *The IESO has considered stakeholder feedback and has decided to delay the implementation of the change to the December 2020 disbursement*
- *This decision strikes an appropriate balance between overall market efficiency and implications for impacted market participants*

\* Refer to the combined Meeting Notes, Summary Stakeholder Feedback and IESO Responses document posted on the MDAG website for further details.

# Stakeholder Feedback

## Feedback Theme: US Markets\*

The IESO's proposed methodology is not consistent with other US markets

- *The IESO believes its methodology to return congestion funds to loads is consistent.*
- *Generally, the starting place for rights to congestion funds is with loads. If the load decides to sell the rights to its congestion revenues then TR holders can receive those funds.*
- *More detailed response is contained in the IESO's response document.*

\* Refer to the combined Meeting Notes, Summary Stakeholder Feedback and IESO Responses document posted on the MDAG website for further details.

# Stakeholder Feedback

## Feedback Theme: Export Transmission Service Charge\*

Exporters contribute to the long-term costs of transmission facilities through ETS.

- *The IESO believes that allocation of TRCA surplus funds from the transmission system is distinct from the ETS rate.*
  - *The ETS rate is set by the OEB, who determines the fairness of transmission charges through the regulatory process.*
- *The IESO believes the TRCA surplus funds should flow back to loads because they are the owners of the transmission system and are ultimately responsible for its costs*

\* Refer to the combined Meeting Notes, Summary Stakeholder Feedback and IESO Responses document posted on the MDAG website for further details.

# Stakeholder Feedback

## Feedback Theme: Export Transmission Service Charge\*

ETS has a negative impact on the efficiency of exports and this is partially offset by TRCA disbursements to exports.

- *The IESO believes allocating all TRCA surplus funds improves efficiency.*
- *Almost all intertie congestion is collected from the Michigan and New York interties when they are heavily congested. If refunding some of these congestion funds are incenting trades during other hours of the day or on other interties then it would cause inefficiency in the market.*
- *The amount of TRCA disbursement is also unknown at the time a trade is made. If the disbursement is impacting trading behaviour then removing it will increase transparency of costs, which increases competition and efficiency*

\* Refer to the combined Meeting Notes, Summary Stakeholder Feedback and IESO Responses document posted on the MDAG website for further details.

# Stakeholder Feedback

## Feedback Theme: Evaluation Framework\*

Provide more detail on the impact of the TRCA disbursement methodology change

- *The IESO will share its impact analysis (see next section of presentation)*

\* Refer to the combined Meeting Notes, Summary Stakeholder Feedback and IESO Responses document posted on the MDAG website for further details.

# Impact Analysis

# Impact of Change to TRCA Methodology

- Stakeholders asked the IESO to provide more information on the impact of a change to the TRCA disbursement methodology
- The IESO has previously advised that this analysis is difficult to perform because of how the TRCA disbursement could impact trading behaviour
- The IESO asked stakeholders if and how trading behaviour would change. Stakeholder provided little feedback.
  - One stakeholder stated that trading behaviour would not change but the disbursement is nice to have
  - The Brattle report noted that the semi-annual TRCA disbursement could act as a subsidy and impact trading behaviour

# Impact Analysis

Considering the feedback received, the IESO has analyzed the impact based on two possibilities:



## Scenario 1:

The removal of TRCA disbursements from exporters does not impact trading behaviour.



## Scenario 2:

The removal of TRCA disbursements will impact exporters' trading behaviour.

# Impact Analysis

## Scenario 1 – No Impact on Trading Behaviour

- Under Scenario 1, if the semi-annual TRCA surplus disbursement does not impact trading behaviour then there should be no impact to the market

# Impact Analysis

## Scenario 2 – Will Impact Trading Behaviour

- Scenario 2 considers the case where the TRCA disbursement could have an impact on trader bidding behaviour
- To analyze this scenario, the IESO performed a simulation to see what would happen if all export bids were reduced by \$1/MWh, in 2018 holding everything else constant
  - The historical TRCA disbursement in recent years has averaged ~\$1/MWh
- The results of the IESO's simulation show that if all export bids were reduced by \$1/MWh, less than 1% of exports that were scheduled in 2018 would not have been scheduled

# Impact Analysis

## Scenario 2 – Will Impact Trading Behaviour

- The analysis indicates most of the time, the impact is minimal for exporters
  - Majority of exports from Ontario flow over congested interties. During these times, average ICP is around \$15-20/MWh (based on 2018 and 2019 data), which indicates the ties are usually heavily congested.
  - Instances when the  $ICP < \$1$  are infrequent (~2-3% of the time when congested)
- If export bids are lowered by \$1:
  - The ICPs paid by traders will likely be reduced by \$1
  - Traders would pay \$1/MWh less in congestion rent for the same schedules, essentially buying the same power for less money
  - In exchange, traders would not need to count on uncertain TRCA reimbursements that are paid months in the future. Market transparency should improve.

# Impact Analysis

## Scenario 2 – Will Impact Trading Behaviour

- During times when the intertie is not congested (~40% of exports occurred during times of non-congestion), the IESO simulation shows a small decrease in exports scheduled
  - Fewer than 1% of all exports from 2018 would not have been scheduled if export bid prices were reduced by \$1/MWh
  - The reduced exports would not have been scheduled in the first place but for the \$1/MWh TRCA disbursement subsidy
  - It should be noted that while exports are beneficial in general, it is possible that export transactions can also increase costs such as increased Congestion Management Settlement Credit (CMSC) payments or increased unit commitment costs

# Summary of Impacts

1. If the TRCA disbursement to exporters does not impact trading behaviour then there should be no impact to the market
  2. If the TRCA disbursement to exports does impact trading behaviour then IESO analysis indicates less than 1% of exports would not have occurred but for this subsidy to trade
- Removal of this trading subsidy will improve efficiency, certainty and transparency.
    - As noted in previous slides, almost all (90-95%) intertie congestion rent come from the Michigan and New York interties when the ties are very congested (averaging \$15-20/MWh). Using these funds to incent trades during other times of the day or other interties causes inefficiency in the market
    - Since the value of the disbursement is unknown at the time of trade, removing it means export transaction costs are more certain and transparent for all exporters leading to greater market efficiency

# TRCA Disbursement Decision

# Decision on Methodology

*Allocate TRCA surplus funds to internal loads only, on a volumetric basis*

## Summary of Rationale:

- Ontario loads are the owners of the transmission system and they are ultimately responsible for its costs
- Exporters use the transmission system to pursue short term commercial opportunities
  - If exporters stopped trading (*from lack of profitable export opportunities*) they would not pay any ETS charges and not be responsible for any transmission costs.
  - Exporters do contribute to the costs of the transmission system through the ETS which is applied as an hourly usage fee.

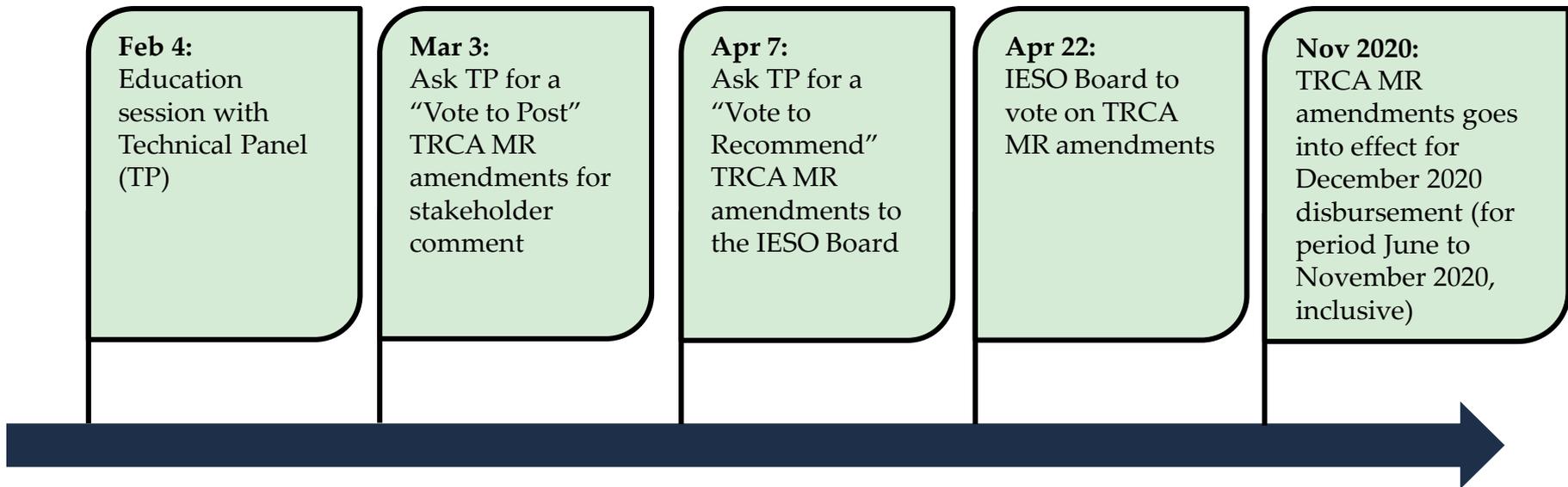
# Revised Decision on Timing

*Changes to the TRCA disbursement methodology will become effective and be applied to the November 2020 TRCA disbursement*

- The IESO has considered stakeholder feedback and decided to delay the effective date of the disbursement methodology change from May 2020 to the November 2020 disbursement
- This decision balances stakeholder perspectives:
  - Market Surveillance Panel has advocated for an immediate suspension of TRCA funds immediately and a change to the methodology since 2017
  - Market Participants will have more time to contemplate changes and impact of the revised disbursement methodology

# Revised Decision on Timing

## IESO's Rule Amendment Target Dates



# Next Steps

- Send comments and feedback to the IESO to [engagement@ieso.ca](mailto:engagement@ieso.ca) by **February 7**

# Appendix

# Proposed Market Rule Changes (1)

## Chapter 8

4.18.2 Subject to section 4.18.3, the *IESO Board* may, at such times as it determines appropriate, authorize the debit of funds from the *TR clearing account* in accordance with section 3.6.3 of Chapter 9 for the purpose of using those funds to offset ~~the~~ certain *transmission services charges*.

## Chapter 9

4.7.1 Disbursements from the *TR clearing account* ordered by the *IESO Board* pursuant to section 4.18.2 of Chapter 8 shall be distributed to each *market participant 'k'* as a non-hourly *settlement amount* according to its allocated quantity of *energy* withdrawn at all *RWMs* and other than *inertie metering points* during *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*, in the manner described in sections 4.7.2 and 4.7.3.

# Proposed Market Rule Changes (2)

## Chapter 9

4.7.2 The portion of any disbursement from the *TR clearing account* payable to *market participant 'k'* in the current *energy market billing period* shall be calculated as follows:

Where:

...

M = the set of all *RWMs 'm'* ~~and *intertie metering points 'm'*~~ during *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*