

Transmission Rights Review Scope of Work

March 2020

1. Introduction and Purpose

Intertie trading provides the IESO with operational and planning flexibility in its day-to-day operations, and significantly enhances the reliability and cost-effectiveness of Ontario's electricity system. Transmission Rights (TRs) were introduced as a risk management tool to enable traders to hedge the financial risks associated with uncertain congestion at the interties. These financial instruments were expected to contribute to the efficient and reliable operation of Ontario's electricity system, by facilitating efficient electricity trade and integration with neighboring markets. It is important to understand how TRs promote efficient intertie trading in today's market.

The Ontario TR market was established at market opening in 2001 and has since been operating largely based on the original design. Over the years, the IESO has received recommendations and feedback regarding potential inefficiencies of the TR market observed by the Ontario Energy Board's Market Surveillance Panel (MSP)¹, IESO internal business units and external market participants. In response, the IESO has made changes to the TR market to address issues and also committed to a more fulsome review of the market to determine whether it is achieving its intended purpose.

More recently the Market Renewal Program (MRP) has proposed changes to the energy market which will have a significant impact on TRs. These changes include replacing the uniform Market Clearing Price (MCP) with Locational Marginal Pricing (LMP), shifting TR market settlements from real-time to day-ahead, and changes to the calculation of congestion pricing. It is important that the TR market effectively integrates these changes into its design to ensure alignment and compatibility with the future renewed market.

As part of the TR market review, the IESO will work with stakeholders to determine what changes may be required to maximize the efficiency of the TR market and to ensure that the TR market is aligned and compatible with the renewed energy market in the future.

¹ The existing TR market has come under scrutiny from the MSP on several fronts for potential inefficiencies. In its January 2013 Monitoring Report, the MSP issued a recommendation that: *The IESO should reassess the design of the Ontario transmission rights market to determine whether it is achieving its intended purpose.*

2. Project Scope

The scope of the TR Review is expected to include:

- Value Assessment
 - Assess the historical performance of the TR market, determine whether the TR market is achieving its intended purpose
- Near-Term Improvements
 - Identify near-term changes that will improve the overall efficiency, value and function of the TR Market (Pre-MRP)
- Long-Term Improvements
 - Identify long-term changes to ensure alignment and compatibility of the TR market with the MRP (Post-MRP)

IESO staff will solicit feedback from internal and external stakeholders prior to finalizing the scope of work. This scope of work outlines the IESO's approach on the TR Review project as well as the deliverables and estimated timeline to complete the project. This scope of work may be subject to review and updates as the process evolves. All comments and inquiries on this scope of work can be directed to engagement@ieso.ca.

3. Stakeholder Engagement

The IESO will engage with stakeholders on this initiative through a TR Review stakeholder engagement, which is planned to be launched in May 2020 with participation open to all interested parties. Through this engagement, the IESO will seek feedback from stakeholders on the items discussed in the Approach section below. The IESO anticipates this initiative will be of particular interest to energy marketers, energy service providers, consultants, consumers, generators and industry associations. There will be opportunities for stakeholders to provide input through in-person meetings, webinars, and written feedback, and all materials will be posted on the MDAG engagement page. In addition, any information and input supplied by interested parties will also be posted (with consent). The engagement of this project will be in accordance with the [IESO's engagement principles](#).

4. Approach

The IESO facilitates electricity trading over Ontario's interties in order to enhance reliability and improve market efficiency for the benefit of Ontario consumers. Traders in turn can leverage TRs to perform an integral hedging function in managing trading risk. The IESO views the TR Review project as an opportunity to assess the benefits and costs of the TR market to Ontario and, if applicable, to recommend changes to improve the TR market design. The IESO plans to work together with stakeholders to conduct the TR review in three stages:

- **Stage 1 - Value Assessment**
 - Present fundamentals of the TR Market to stakeholders
 - Evaluate historical data and solicit stakeholder feedback on how TRs are used in practice
 - Assess the value the TR market provides under a range of system conditions
 - Review the original objective statement for the TR market and establish an objective statement in the context of today's electricity market
 - Determine the extent to which the TR market is achieving its objective

- **Stage 2 – Near Term Improvements**
 - Examine structure and mechanics of the current TR market
 - Identify areas of inefficiency and potential improvements
 - For example, potential changes could include:
 - Eliminating path on interties where there is little or no value from auctioning TRs
 - Reducing the number of TRs offered on certain intertie paths
 - Assessing on and off peak TRs options
 - Reviewing the current methodology to determine TR quantities for future auctions

- **Stage 3 – Longer Term Improvements**
 - Review the TR market in the context of the redesign of Ontario's electricity market through the MRP
 - Recommend potential improvements to the TR market for implementation to ensure compatibility and alignment
 - Likely areas of review would include:
 - TR settlement from real time to day ahead
 - Implication of MRP changes to the calculation of Intertie Congestion Prices

At the completion of Stage 1 the IESO will present findings from the analysis undertaken and information gathered from stakeholders in order to make a determination on the value that the

TR market provides to the electricity market today and in the future. This information will be used to prioritise Stage 2 and 3 which will consider implementation projects in the near and longer term respectively.

The TR Review is intended to be extensive, covering all aspects of the TR market including market financials, auction mechanics, and settlements. As a result of the review, the IESO expects to develop a clear picture of the value that the TR market provides today and in the future as well as an inventory of potential changes to improve efficiency in the short term and under the renewed electricity market.

The TR Review project is a continuation from the Transmission Rights Clearing Account Disbursement Methodology work that is ongoing through the Market Development Advisory Group (MDAG).

Possible Outcomes:

As a result of the review, a range of possible outcomes may occur, including:

1. Whether the TR market provides value to the Ontario electricity grid and is achieving its expected goals
2. What minor enhancements to the TR market could be considered to increase its value in the short term, such as (but not limited to):
 - a. Increased awareness of the usefulness of TRs and design changes through MRP
 - b. Changes to the methodology used to set auction quantities
 - c. Improvements to auction tools used by stakeholders
3. Whether major redesign changes should be considered, such as (but not limited to):
 - a. Whether the IESO should continue to administer a TR market
 - b. Elimination of TRs on certain paths
 - c. Changes to the type of TRs being offered
 - d. Significant changes to TR settlements

The findings and analysis from the TR Review will be shown in stakeholder presentations and documented by the recommendations at the conclusion of the TR Review. At various milestones, draft documents will be published on the IESO website for stakeholder review and comments.

Interrelated work:

The scope and deliverables of this project are related to other issues under discussion at the IESO, primarily:

- [The Market Development Advisory Group](#) (MDAG) where other changes related to the TRCA Disbursement Methodology are being discussed.
- [The Market Renewal Program](#) (MRP) where changes to the energy market are being discussed.

The TR Review project group will coordinate with other groups to identify gaps and align outcomes (if possible) to further enhance the discussion. Updates on these related engagements can be provided at MDAG meetings.

5. Proposed Project Timeline

Quarter	Activity
Q1. 2020	Post Scope of Work
Q2. 2020	MDAG meeting: <ul style="list-style-type: none"> ○ To present MDAG members with an overview of the Transmission Rights Market Review and to solicit feedback on the proposed scope of work
	TR review stakeholder engagement: <ul style="list-style-type: none"> ○ Launch TR review stakeholder engagement ○ Stage 1 - Value Assessment: TR market fundamentals, historical analysis, present findings, comprehensive objective statement, finalize interim report
Q3. 2020	TR review stakeholder engagement: <ul style="list-style-type: none"> ○ Stage 2 - Near Term Improvements: review TR market mechanics, present issues, discuss and finalize options for near-term improvements

Quarter	Activity
Q4. 2020	TR review stakeholder engagement: <ul style="list-style-type: none"> ○ Stage 3 - Longer Term Improvements: review MRP changes which have implications on the TR market, discuss and finalize options for long-term improvements
Q1. 2021	Publish final report

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