

Market Renewal FACT SHEET

Supplier Pricing

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The single schedule market (SSM) is one initiative in the Market Renewal's Energy work stream. In the current two schedule market, supplier pricing in each hour is the same everywhere in the province. In a SSM, supplier pricing can vary depending upon location within the province.

What is supplier pricing?

In a SSM, both dispatchable and non-dispatchable (e.g., self-scheduling) suppliers sell into the market and receive the Locational Marginal Price (LMP) corresponding to their location on the grid. In a two schedule market all suppliers receive a single Market Clearing Price (MCP).

In a SSM, dispatchable resources would bid into the market the same way they do in a two schedule market and would be paid based upon their output and their specific LMP. Non-dispatchable generators self-schedule by submitting a forecast of expected output. In real-time (i.e., during operation), non-dispatchable generators provide energy and are paid based on their real time output at their specific LMPs.

Under a SSM, suppliers would also be paid zonal operating reserve prices for the operating reserve quantities they are scheduled for. Under a two schedule market there is single provincial-wide price for operating reserve.

Why is it important?

Paying resources the LMP associated with their location for energy aligns market incentives with the value of energy production into the system. There are a number of benefits associated with this practice.

- Improved efficiency through alignment of schedule, offer and settlement for the supplying resource.

- Less complexity through a reduced need for make-whole payments.¹
- Increased transparency between pricing and settlement at a location for competing supply.

Under the IESO's current two schedule market, unconstrained dispatch (i.e., dispatch that ignores transmission constraints) determines the MCP that all resources receive, while actual dispatch instructions are determined by a constrained algorithm which takes into account all system constraints. This system results in a settlement price that is inconsistent with actual dispatch instructions. Because of the inconsistency, generators may be dispatched even when their marginal cost is higher than the MCP. When this happens, generators are compensated via Congestion Management Settlement Credits (CMSC). This disconnect leads to market inefficiencies and higher overall system costs.

For example

In the example, the MCP is \$12. Under the two schedule market, some generators may need to be dispatched out of merit due to the east/west transmission congestion in one of two ways:

- Resources in the northeast and southeast may be ramped up even though the MCP is less than their offer price because they are needed to operate the system.
- Resources in the northwest and southwest may be ramped down even though the MCP is greater than their offer price because transmission congestion prevents the energy from being transmitted east.

¹ Make-whole payments are payments by the IESO to compensate resources for lost revenue due to uneconomic dispatch. Most often this is due to the need to dispatch uneconomic resources to maintain system operation and reliability.

Example - Supplier Pricing Example



In both cases, market inefficiencies arise when the impacted generators are paid out-of-market CMSCs. With a SSM, suppliers would receive the LMP price based upon their location on the system and there would be fewer out-of-market payments.