

MAG Energy Solutions welcomes the opportunity to provide feedback to the Technical Panel in the matter of the Transmission Right Clearing Account (“TRCA”) Disbursements.

1- THE TRCA PROPOSAL WILL REDUCE EXPORTS AND MAY HAVE NO OVERALL BENEFIT FOR LOADS

On page 11 of the IESO’s June 11, 2020 Updated Impact Analysis¹, the IESO mention that the change in the TRCA disbursement could affect exporter’s trading behavior. Some exporters will probably adjust their bids to integrate the higher transaction cost into their hourly pricing decisions. Even if only 10-20 % of exporters reduce their bids, it will reduce the amount of hourly congestion payments collected by the IESO because intertie congestion is determined on a marginal basis. Under the proposed allocation method, loads will be receiving a bigger share of a smaller amount of TRCA surplus, and there may be no overall benefit to loads as compared to the present situation.

2- TIMING OF IMPLEMENTATION

The timing of the rule change is not consistent with the sale of Long-Term Transmission Rights (“Long-term TR”), and if the rule is implemented as currently proposed it will adversely affect parties who purchased Long-term TR based on the existing rules.

The proposed change to the TRCA allocation rules was first presented in the current format on April 2, 2020, and the rule change has still not yet been approved or adopted by the IESO Board. On that date, Long-term TR had already been sold covering periods up until March 31, 2021. The current proposal is very different from the existing TRCA rule. Even if a small percentage of exporters factor in the change in TRCA disbursement into their hourly bids, it will impact and lower the congestion, and this will lower the value of TR already sold as soon as the start of the first Balance Period to accumulate TRCA surplus under the revised new rule. The IESO is proposing that the first Balance Period should start on June 1, 2020, even before the rule change is adopted. This means that the proposed rule change, if implemented with an effective date of June 1, 2020, would lower the value of TR that have already been sold. The IESO should not implement rule changes that have a retroactive effect, and rule changes should not impact products that have already been sold. The rule change should only impact Balance Periods that start after the expiry of latest Long-term TR sold, which means that the first affected Balance Period should not start until April 2021. The proposed rule change degrades the value of Long-term TR that market participants have already bought and paid for. If the IESO decides to proceed with the proposed new TRCA disbursement method, we recommend that the rule change only become effective for Balance Periods starting from April 2021.

3- INCONSISTENCY BETWEEN IESO PROPOSALS

The IESO’s proposed method for disbursing the TRCA created from external congestion payments is inconsistent with the method that the IESO is proposing under the Market Renewal Program (“MRP”) for disbursing the residuals that will be created from internal congestion payments under the MRP’s proposed Single Schedule Market.

The proposed method for disbursing TRCA recognizes that exporters contribute to the cost of the transmission system through the payment of the Export Transmission Service rates (the “ETS”). On page 10 of the IESO’s May 26, 2020 TRCA Presentation to the Technical Panel² (the “**May 26 Presentation**”), the IESO stated that the revised proposed method for disbursing TRCA “recognizes the cost contribution of exporters to the transmission

¹ <http://ieso.ca/-/media/Files/IESO/Document-Library/engage/mdag/mdag-20200611-trca-disbursement-methodology-updated-impact-analysis.pdf?la=en>

² <http://www.ieso.ca/-/media/Files/IESO/Document-Library/tp/2020/iesotp-20200526-tr-clearing-account-presentation.pdf?la=en>

system". Like loads, exporters also pay transmission rates (the ETS) that are set by the OEB based on the cost of the transmission system. Under the revised TRCA method, the IESO is proposing that the exporter class should be entitled to a share of the TRCA surplus (created by external congestion) based on the proportion of the total transmission costs that was paid by exporters³.

However, under the MRP, the IESO's proposal for disbursing residuals created by the payment of internal congestion costs does NOT recognize exporters' contributions to the cost of the transmission system as IESO is proposing to disburse all internal congestion residuals to Ontario loads only, with no share being paid to exporters. In Section 4.2.1 of the final version of the Single Schedule Market High Level Design Document⁴ published in August 2019 (on page 48), the IESO is proposing that all future internal congestion and line losses residuals will be disbursed only to Ontario loads "since the residuals are a result of the investments they have made in the transmission system".

In addition to contributing to the cost of the transmission system through the payment of the ETS, exporters will also pay internal congestion under the proposed MRP design for the Single Schedule Market. Exporters could frequently pay both internal congestion and external congestion at the same time. Since exporters contribute to the cost of the transmission system through the payment of ETS, and exporters pay internal and external congestion, they should be entitled to share in the disbursement of all the residuals arising out of congestion and line losses on the transmission system. There is no rational justification for treating the disbursement of the residuals created by internal congestion differently than the disbursement of the TRCA created by external congestion.

4- MIS-MATCH BETWEEN THE BALANCE PERIOD AND THE LOOK-BACK PERIOD

The IESO is proposing that there should be a one month difference between the Balance Period during which the TRCA surplus is accumulated and the disbursement Look-back Period. As shown on page 16 of the May 26, 2020 Presentation², the surplus is accumulated from November to April (May to October) while the look-back period is from December to May (June to November).

MAG's view is that the Balance Period should be the same as the Look-back Period. Page 101 of the MDAG presentation⁵ of April 2, 2020 indicates that the proportion of transmission service charged paid by loads as a class and exporters as a class were almost identical during the two periods; however, the transmission charges paid by individual loads and individuals exporters could differ greatly between the Balance Period and the Look-back Period as compared to other market participants in the same class, and those statistics have not been provided.

If the reason behind the mismatch between the Balance Period and the Look-back Period is that the IESO needs one month to compile the true TRCA balance, MAG's view is that the Balance Period and the Look-Back Period should be the same, with no mis-match, and TRCA surplus should be credited to market participants one month later.

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³ See page 14 of the May 26 Presentation

⁴ <http://www.ieso.ca/-/media/Files/IESO/Document-Library/engage/ssm/SSM-High-Level-Design-Aug2019.pdf?la=en>

⁵ <http://ieso.ca/-/media/Files/IESO/Document-Library/engage/mdag/mdag-20200402-presentation.pdf?la=en>