
Transmission Rights Clearing Account Disbursement Methodology – Vote to Recommend

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IESO Technical Panel

June 23, 2020

Purpose

- To request Technical Panel (TP) to recommend the TRCA Market Rule (MR) amendments to the IESO Board
- To propose a revised effective date for the MR amendment from November 2020 to May 2021

Agenda:

1. Recap
2. Updated TRCA impact analysis results
3. Stakeholder Feedback on Market Rule Amendments
4. Next steps

Recap

- In response to a MSP recommendation and following extensive stakeholder engagement, the IESO has proposed a Market Rule amendment to allocate TRCA surplus funds to loads and exporter classes based on proportion of transmission service charges paid
- At the May 26 TP meeting:
 - The TP requested that IESO provide updated analysis on the impact a change to the TRCA disbursement methodology may have during the COVID-19 pandemic

[* Recommendation 4-1 from the May 2017 MSP Monitoring Report](#)

Recap (continued)

- The TP voted in-favour of posting the TRCA MR amendments for stakeholder review
- On June 11, the IESO posted updated analysis on the Market Development Advisory Group [engagement webpage](#) on the impact a change to the TRCA disbursement methodology may have during the COVID-19 pandemic

* [Recommendation 4-1 from the May 2017 MSP Monitoring Report](#)



Updated TRCA Impact Analysis

Updated Impact Analysis – Summary

- The IESO updated previous* analysis to demonstrate the impact of a change to the TRCA disbursement methodology to cover the COVID-19 period (March 1 – May 23, 2020), which included the analysis of the intertie trading during this period
- The IESO observed that real-time hourly demand in Ontario was on average 7.7% lower than in 2019

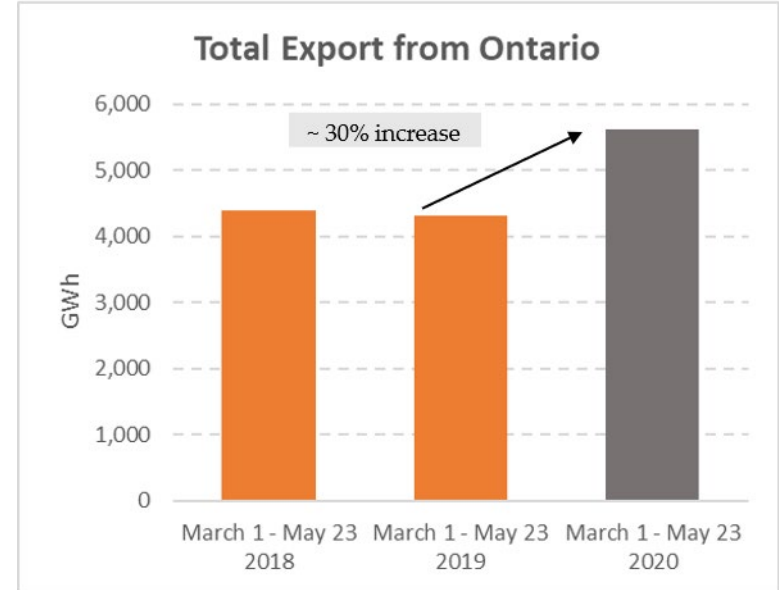
[* See Transmission Rights Clearing Account \(TRCA\) Disbursement Methodology Review \(Market Development Advisory Group meeting, Jan 2020\) and Transmission Rights Clearing Account \(TRCA\) Presentation \(Technical Panel meeting, Feb 2020\)](#)

Updated Impact Analysis – Summary (continued)

- Consistent with prior years, during March 1 – May 23, 2020 almost all intertie congestion rent came from the Michigan (87.3%) and New York (10.3%) interties
 - Average export intertie congestion on the Michigan intertie has decreased from \$21 in FY2018 and \$16 in FY2019 to \$10 over the study period, likely due to generally lower market prices which reduce price spreads

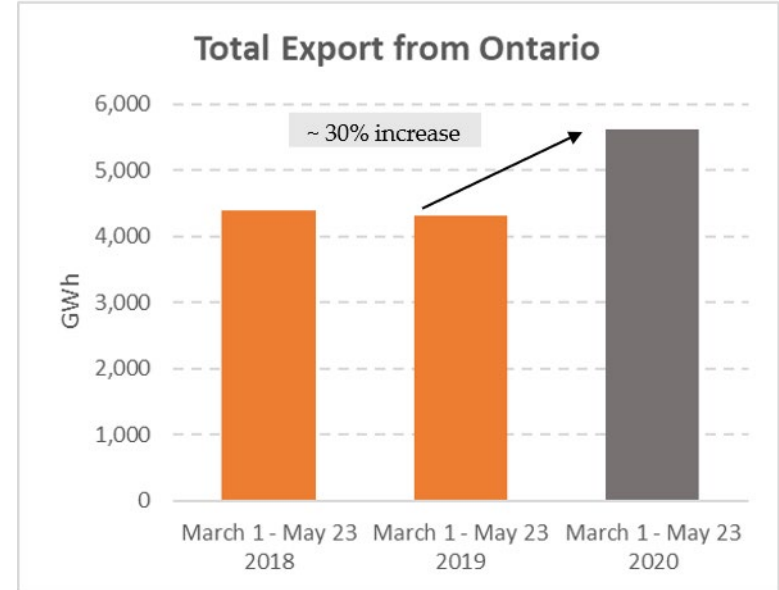
Updated Impact Analysis – Summary (2)

- Total export volume from Ontario increased by ~30% relative to the same period in 2018 and 2019, while interties remained highly congested
- Both congested and uncongested export volumes have increased relative to 2019 and 2018
- On individual interties, all but one intertie (Manitoba) were at or above 2019 and 2018 export volumes



Updated Impact Analysis – Summary (2) (continued)

- Ontario continues to benefit from its dynamic intertie connections during the COVID-19 pandemic as trading delivers economic and reliability benefits as we experience lower demand
- Exports to neighbouring markets have provided a needed market for Ontario's baseload nuclear, hydroelectric and renewable supply



Updated Impact Analysis – Summary (3)

- The IESO received mixed feedback on whether the TRCA disbursement impacts trading behavior but has included both for completeness

Updated Analysis

1. If the TRCA surplus disbursement does not impact trading behaviour (Scenario 1), this proposed change should continue to have no impact to the market including no impact to exports independent of the COVID-19 pandemic

Updated Impact Analysis – Summary (3) (Continued)

2. If the TRCA surplus disbursement does impact trading behaviour (Scenario 2), the IESO estimated the impact by reducing all export bid prices by the historical TRCA disbursement amount (\$1/MWh)
 - The results of the IESO's analysis show less than 1% of exports that were scheduled in March 1 – May 23, 2020 would not have been scheduled
 - Results are consistent with previous analysis based on the 2018 data

Stakeholder Feedback: TRCA Proposed Market Rule Amendments

- The Technical Panel voted to post the proposed market rule amendments for broader stakeholder comment at the May 26th meeting
- The IESO notified stakeholders of this in the May 28th IESO Bulletin, where stakeholders were requested to submit feedback on the proposed market rules by June 11th
- Following the posting of the updated impact analysis requested by the TP, the IESO extended the opportunity for further stakeholder feedback to June 18 to help inform today's discussion and vote

Stakeholder Feedback: TRCA Proposed Market Rule Amendments (Continued)

- At the time of posting this presentation, one stakeholder had provided feedback which is posted to the [MDAG](#) and [Technical Panel](#) webpages. The IESO will respond to the feedback at the June 23rd Technical Panel meeting.

Recommended Methodology

- The results of the impact analysis for the COVID-19 period is consistent with past findings and the IESO is confident that the proposed TRCA disbursement methodology is the right approach from both an equity and efficiency perspective
- The IESO proposes to delay the proposed change from November 2020 to May 2021

The IESO requests that the Technical Panel vote to recommend the TRCA Market Rule amendments to the IESO Board for approval

Next Steps

June 23, 2020:

TP asked to "Vote to Recommend" the TRCA proposed MR amendments to the IESO Board for review and approval

August 25, 2020:

IESO Board to vote on the TRCA proposed MR amendments

May 2021:

TRCA MR amendments enabled for May 2021 disbursement (for the period December 1, 2020 to May 31, 2021, inclusive)

Appendix

Stakeholder Feedback and IESO Response regarding impact analysis requested from the May 26 TP meeting

Stakeholder Feedback: MAG (1)

Stakeholder feedback:

- The TRCA surplus distribution methodology proposal will reduce exports and may have no overall benefit to loads. A small number of exporters who reduce bid prices will reduce congestion rent collected, reducing the amount of surplus to distribute

IESO response:

- *Loads are likely better off even if some exporters reduce bid prices because those exports referred to in MAG's feedback may not be the marginal transactions which set price*
- *Trades will be more reflective of hourly market economics increasing market efficiency*

Stakeholder Feedback: MAG (2)

Stakeholder feedback:

- Existing TR holders could be harmed if the TRCA disbursement methodology is changed prior to November 2021

IESO response:

- *The IESO proposes to delay the effective date of the rule change to May 2021 (look-back period Dec 1, 2020 to May 31, 2021)*
- *The May 2021 effective date balances differing stakeholder perspectives that are reflected in feedback received throughout this stakeholder engagement process*

Stakeholder Feedback: MAG (3)

Stakeholder feedback:

- The IESO's proposed method for disbursing the TRCA surplus (created from intertie congestion rents) is inconsistent with the method that the IESO is proposing under the Market Renewal Program (MRP) for disbursing internal congestion rents

IESO response:

- *The IESO intends to maintain its MRP proposal to allocate internal congestion rents only to internal loads when it proposes MRP Market Rules amendments to Technical Panel next year*

Stakeholder Feedback: MAG (3) (Continued)

- *Allocating internal residuals only to internal loads is appropriate because exporters do not directly pay for the costs of the internal transmission system, whereas internal loads directly fund the costs of the internal transmission system and other assets upon which export trade relies*

Stakeholder Feedback: MAG (4)

Stakeholder feedback:

- The IESO should align the balance period and the look-back period used to calculate the TRCA disbursement because there may be settlement impacts to individual participants

IESO response:

- *The IESO acknowledges the one-month misalignment between the balance period (used to calculate the TRCA balance and proportion of transmission costs) and look-back period (used to calculate individual shares of the surplus distribution) could have settlement impacts on*

Stakeholder Feedback: MAG (4) (Continued)

individual participants. Settlement amounts could be higher or lower, which would likely balance out over time

- Misalignment between periods has existed since inception of the TRCA and is not due to the proposed change. This misalignment is attributed to IESO settlement tool limitations. The proposed rule amendment would reduce the settlement impact versus status quo*

Thank You

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