



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00331-R00		
Subject:	Market Pricing		
Title:	Specify the Facility Ramping Capability in the Market Schedule		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	7	Appendix:	7.5
Sections:	4.13		
Sub-sections proposed for amending:	4.13.1		

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Published for Stakeholder Review and Comment	27 Dec 06
2.0	Approved by IESO Board	17 Jan 07
3.0	Effective Date Changed to 12 Sep 07	12 Sep 07
Approved Amendment Publication Date:	19 Jan 07	
Approved Amendment Effective Date:	12 Sep 07	

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary and Background

The IESO Board of Directors is proposing to make an amendment to the market rules that would define the market parameter that controls the ramp rate multiplier used in determining energy market prices. The existing market rules authorize the IESO to establish that parameter but do not define its value. Prior to market commencement in 2002, the IESO set the parameter such that the ramp rate multiplier used for pricing was 12-times the actual ramping capability of Ontario generation facilities. That value was intended to be temporary.

In December, 2005, at the time of the approval of the high-level DACP design, the IESO Board accepted recommendations from the Stakeholder Advisory Committee and directed IESO Management to examine the role of the ramp rate multiplier in real-time price calculations. The issue has been extensively addressed at the Market Pricing Working Group (MPWG) throughout 2006. In addition to the discussions at MPWG, there have been numerous submissions by market participants and their associations on this subject. The matter was also reviewed with the IESO's Stakeholder Advisory Committee, which provided its views to IESO Management and directly to the Board of Directors.

The existing market rules give IESO management discretion to change the parameter that has the effect of changing the multiplier. The IESO Board has concluded that in the case of this market pricing parameter, the change should be implemented by having the parameter that controls the ramp rate multiplier specified in the market rules. The proposed change is one component of a package that:

- reduces costs for all consumers;
- provides environmental benefits as the result of reduced exports. Since these exports can often be coal-based, environmental benefits will be realized through reduced emissions as the coal-fired facilities in Ontario are operated less; and
- better reflects the physical realities of the operation of the power system.

Moving to a three-times ramp rate multiplier would improve the quality of market signals to all consumers and producers, and would immediately address some concerns expressed by the Ontario Energy Board's Market Surveillance Panel about market inefficiencies that can occur when electricity is exported from the Ontario market. The wholesale market energy prices will adjust in response to this change, and there will be significant mitigation of any pricing changes that occur in today's Hybrid Market structure through the Global Adjustment mechanism with approximately eighty percent of electricity supply operating under some form of OPA-administered contract, NUG contracts or government regulation. As a result, the financial impact to Ontario consumers will be reduced to very low levels – estimated at about four one-thousandths of a cent per kWh. This amount would be more than offset by the significant consumer savings from the distribution of surplus funds in the

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Transmission Rights Clearing Account to be made in conjunction with this rule amendment (see table below). The Transmission Rights Clearing Account surplus amounts are received through the sale of transmission rights, and are not collected from Ontario consumers. The additional savings to Ontario consumers as a result of the IESO's proposed 2007 fee reduction and rebate are not included in the figures shown on the table below.

Discussion

Additional background information on this matter can be found on the IESO web site under stakeholder plan SE-17, Price Calculation Methods - Impacts with 12 Times Ramp Rate (SE-17) at the following location: http://www.theimo.com/imoweb/consult/consult_se17.asp

In particular, an assessment of the alternative solutions considered for the ramp rate multiplier issue and the rationale for changing to a three-times ramp rate are provided in the document titled "Addressing the Twelve-Times Ramp Rate Multiplier", which was published on August 16, 2006 and can be found on the IESO web site at the following location:

http://www.theimo.com/imoweb/pubs/consult/se17/se17_Addressing-the-Twelve-Times-ramp-rate-multiplier.pdf

Additional materials that set out the potential impacts of this change, taking into account the mitigation provided by the market and regulatory features of the hybrid market, are also available on the IESO website in a consolidated posting dated October 19, 2006.

<http://www.theimo.com/imoweb/news/newsItem.asp?newsItemID=3080>

An updated analysis, reflecting more recent market prices and the mitigation measures proposed in conjunction with this rule amendment, is set out at the end of this section.

As indicated above, this amendment proposes to specify that market prices be determined on the basis of three-times the actual ramping capability of dispatchable Ontario generators and consumers. This specification would be accomplished by defining the value of the parameter "TradingPeriodLength" to be 15 minutes for the purposes of determining market prices. Currently, the value of the TradingPeriodLength parameter for the purpose of determining market prices is not defined in the market rules, but was set at 60 minutes (equivalent to twelve-times the actual ramping capability) by the IESO prior to market commencement.

Pursuant to Chapter 3, section 4.2A.1 of the market rules the Board requests that persons wishing to submit written comments on the proposed amendment do so by January 12, 2007 using the written submission form.

http://www.theimo.com/imoweb/pubs/marketAdmin/ma_f1466_MR_AmendmentSubmission.doc

The IESO Board will then consider the amendment and any written comments received.

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**Net Payments - 3x Ramp Rate and Distribution from Transmission Rights
Clearing Account**

Market Impacts

Wholesale market price impact of change to 3x multiplier ¹	2.6%	
2006 Weighted average wholesale price ² (\$/MWh)	\$ 49.00	
Reduced Impact due to arbitrage ³	<u>50%</u>	
Average HOEP increase (\$/MWh)		\$ 0.64
2007 Domestic Demand (TWh)	155	
Total Gross Impact (million \$)		\$ 98.74
Global Adjustment/OPG Rebate - reduces impact by	80%	<u>x 0.20</u>
Post GA/Rebate gross impact (million \$)		\$ 19.75
CMSC/IOG savings ⁴ (million \$)		<u>-\$ 13.07</u>
Net Cost before TR Clearing Account payout⁵ (million \$)		\$ 6.68
Net Cost before TR Clearing Account payout (cents/kWh)		0.004
Distribution from TR Clearing Account⁶ (million \$)		<u>\$ 54.00</u>
Net Benefit to Ontario Consumers (million \$)		\$ 47.32

Notes:

- 1 - Wholesale market price impact based on simulation for the period Nov 2005 to April 2006.
2 - Weighted average price for the period of January 1, 2006 to December 26, 2006.
3 - The wholesale market price impact will reduce some exports that would otherwise have occurred.
4 - CMSC/IOG savings are assumed to vary directly with price, based on a \$16 million savings at \$60/MWh.
5 - Net cost will vary with average market price (\$/MWh). Net cost estimates for several possible average market prices are shown here:
- | Ave Price (\$/MWh) | Net Consumer Cost (millions \$) |
|--------------------|---------------------------------|
| 45 | 6.13 |
| 50 | 6.82 |
| 55 | 7.50 |
| 60 | 8.18 |
| 65 | 8.86 |
| 70 | 9.54 |
- 6 - Surplus TR Clearing Account payout will be \$57 million to all market consumers, of which \$54 million is expected to go to Ontario consumers.

PART 4 – PROPOSED AMENDMENT**4.13 General Parameters**

4.13.1 Parameters

TradingPeriodLength

Being either 60 minutes, in respect of a *pre-dispatch schedule*, or 5 minutes, in respect of a constrained *real-time schedule*, or 15 minutes ~~variable number of minutes, as determined by the IESO~~, in respect of a *market schedule*, as the case may be.

PART 5 – IESO BOARD DECISION RATIONALE

This amendment will improve the quality of the energy price by better aligning the market price with operational drivers, as prices will better reflect the physical realities of the power system.