

Transmission Rights Market Review Feedback Form

Meeting Date: May 21, 2020

<u>Date Submitted:</u>	<u>Feedback Provided By:</u>
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Following the May 21, 2020 Transmission Rights Market Review webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following items discussed during the webinar. Background information related to these feedback requests can be found in the presentation, which can be accessed from the [engagement web page](#).

Please submit feedback to engagement@ieso.ca by June 11, 2020. If you wish to provide confidential feedback, please submit as a separate document, marked “Confidential”. Otherwise, to promote transparency, feedback that is not marked “Confidential” will be posted on the engagement webpage.

Stakeholder Feedback Table

IESO Requests	Stakeholder Feedback
How are Transmission Rights (TRs) used in practice by stakeholders?	TRs are used by stakeholders to hedge financial risks associated with unpredictable and unavoidable congestions at the interties. Effectively, marketers use TRs as a risk management tool to hedge and secure their intertie transactions. What's more, TRs are completely self-funded by auction participants at no cost to the rate-payers. In fact, TRs benefit rate-payers by: a) facilitating and enabling intertie transactions to balance reliability, b) facilitating and enabling intertie transactions to shift procurement risks from rate-payers to private industry, c) generating revenue to rate-payers by disbursing TR auction surpluses, and d) providing revenue to Ontario facility owners and marketers, again at no expense to the rate-payers, to remain in business in Ontario. As the IESO embraces more market mechanisms while capacity contracts roll off, existing facilities would face the choice between securing merchant revenue streams or shutdown. As such, self-funded market mechanisms like TR auctions will be critical for facility owners and marketers to remain open in Ontario. Moreover, the more participants in the TR auctions, regardless of whether the participants have associated intertie transactions or not, translates into more surpluses for rate-payers. Consequently, we urge the IESO to adopt market rules that further incentivize participation in TR auctions.
Do TRs provide an appropriate or optimal hedge against congestion?	TRs currently provide adequate hedges against congestions. Without the price certainty provided by TRs, marketers would be less willing to conduct intertie transactions, and intertie transaction volume will decrease as a result.
How do stakeholders manage the risk associated with TRs?	Stakeholders rely on the disbursements from the TR auctions to manage risks associated with both TRs and intertie trades. Such disbursements encourage stakeholders to enter into TR auctions and intertie trades as competitively as possible, as the disbursements effectively de-risk a more aggressive market participation posture. Removing or reducing this incentive would increase risks for stakeholders, cause them to adjust their offer prices accordingly, to the ultimate detriment of rate-payers.

	<p>Also, stakeholders rely on fair, transparent, and proactive consultations from the IESO to inform their TRs strategies. Frequent rule changes and retroactive clawbacks harm market confidence and increase risks for stakeholders. In essence, stakeholders require predictability and stability from the regulators to make business decisions. In addition, stakeholders do not formulate market strategies in a vacuum. Decisions on TR auction disbursements, TR auction design, and other energy- and capacity-related changes envisioned by Market Renewal are intrinsically related to each, and will inform stakeholders' willingness to invest and transact in Ontario. The IESO should not expect stakeholders to maintain the same TR- and intertie-related market behavior if TR disbursement ratios or TR designs were modified. Put another way, the IESO should expect changes to one market mechanism to affect, for better or for worse, other market outcomes.</p>
What improvements to the current design would you suggest to help maximize the value of TRs and encourage greater participation in the TR market?	<p>We suggest a slow, measured, and proactively stakeholdering process that takes into account all inter-related market mechanisms. In other words, the IESO should avoid design-decisions based on piecemeal analysis. As a completely self-funded market mechanism, the IESO should encourage additional participation in the TR market by facility owners and marketers alike. The resulting market liquidity would in no way harm rate-payers, and would in fact increase the share of surplus shared by rate-payers.</p> <p>In addition, we recommend: a) a finer lamination of price/quanity pairs, b) the possibility to sell back TR options, and c) shorter term TRs. The IESO should also explore the creation of internal TR between nodes.</p>
To support the TR review, are there lessons learned from other jurisdictions that you could provide from your experience in trading elsewhere?	Please see recommendations from the answer above.