

# Energy Workstream – Recap of Market Power Mitigation Decisions and Guidelines

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September 20, 2018

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# Agenda

- Stakeholder Feedback
- Recap of Guidelines Presented in July 2018
  - Conduct and Impact Thresholds: Guidelines (*Preliminary Decision*)
  - Uncompetitive Interties: Guidelines (*Preliminary Decision*)
- Introduction to the High Level Design review process

# Market Power Mitigation – Stakeholder Feedback

Q: Would the IESO clarify how much advanced notice will be given prior to a designation of an uncompetitive intertie will go into force?

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A: Designation of uncompetitive interties will be reviewed on at least an annual basis. In addition, it is currently contemplated that these designations would be revisited on an ongoing basis as appropriate.

In consultation with stakeholders, the detailed design will determine the appropriate notice period prior to a designation coming into force. The IESO welcomes input on what notice period would be appropriate.

# Market Power Mitigation – Stakeholder Feedback

Q: Confirmation is requested that the MPM provisions under consideration are not intended to be applied to dispatchable loads as they have no incentive to increase market prices.

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A: Dispatchable loads will not be subject to most MPM provisions. The *only* exception currently identified is the uneconomic production (consumption) issue. The IESO will assess any new market power issues for loads that are discovered in the course of Market Renewal.

During detailed design the IESO will consult stakeholders to determine the appropriate way to ensure that this issue does not significantly impact market outcomes.

# Market Power Mitigation – Stakeholder Feedback

## *A: Economic Consumption*

The issue can occur when there is a transmission outage after the DAM that prevents a dispatchable load from consuming based on their DAM schedule.

For the portion of their DAM schedule that cannot be consumed, they could increase their bid price and then sell that consumption back into the RT market at very high prices. Example follows on the next page.

# Dispatchable Load Uneconomic Production – Simplified Example

## DL Schedule and Offers:

- DA schedule = -100 MW @ \$30/MWh
- Outage on a transmission line causes a transmission constraint to bind between DA and RT dispatch
- Increases its bid price after the outage occurs to \$1,999/MWh
- RT schedule = -10 MW
- LMP= \$1,999/MWh

## Settlement:

$$= -\$3,000 + \$179,910$$

$$= \mathbf{\$176,910}$$

This results in increased uplift costs to loads.

# Recap of Guidelines



# Market Power Mitigation – Guidelines

- The guidelines were first presented to stakeholders in the July 19, 2018 session.
- These guidelines will be reflected in the high level design
- The IESO did not receive any stakeholder feedback on these guidelines

# Conduct and Impact Thresholds - Background

- Conduct thresholds:
  - define the boundaries within which participants will not be mitigated
  - based on reference levels – proxies of competitive offers
- Impact thresholds:
  - define how much of an impact that offers in excess of the conduct threshold can have on market prices before mitigation is applied

# Conduct and Impact Thresholds – Preliminary Decision

- The IESO will use these guidelines to develop specific conduct and impact thresholds during detailed design.
- The values selected for the conduct and impact thresholds will be consistent with these guidelines

# Guidelines for Conduct and Impact Thresholds

## Conduct and impact thresholds will:

1. Promote market outcomes that are consistent with those that would result under competitive participation
2. Consider and account for relevant Ontario-specific issues that could otherwise significantly impact the efficiency of the mitigation regime
3. Result in intervention in the market that is no greater than needed to constrain the material exercise of market power
4. Not unnecessarily distort efficient incentives for market participation
5. Balance the administrative burden of maintaining the mitigation regime against the effectiveness of that regime
6. Become less permissive as competition is more restricted

Guidelines 1 through 5 are general guidelines that will inform the design of the entire mitigation regime, 6 is specific to the conduct and impact thresholds

# Uncompetitive Interties – Preliminary Decision

- When interties are competitive, the offers and bids of other participants should mitigate the impact of these incentives. Only when competition on a given intertie is insufficient will these incentives require intervention
- Interties designated as uncompetitive will apply pricing rules in day-ahead and real-time to prevent the exercise of market power
- The criteria to designate uncompetitive interties and the pricing rules that will apply to designated uncompetitive interties will be consistent with these guidelines

# Uncompetitive Interties – Guidelines

## Guidelines for Designating Uncompetitive Interties

1. Designation of an uncompetitive intertie will require public notification prior to coming into force
2. Designation of an uncompetitive intertie will apply across all timeframes (DAM, PD, RT)
3. Designation of an uncompetitive intertie will require that the IESO has a reasonable expectation that significant restrictions to competition exist, e.g.:
  - a. Bulk of trade controlled by one participant
  - b. Regulatory barriers to competition
  - c. Potential for collective behaviour

# Uncompetitive Interties – Guidelines

## Guidelines for Pricing Rules on Uncompetitive Interties

1. There will be pricing rules to address issues specific to the DAM and issues specific to the day-at-hand
2. Pricing rules are intended to improve price fidelity on uncompetitive interties
3. When activated, pricing rules will result in intertie prices that better reflect local conditions in Ontario
4. Pricing rules are intended to reduce the potential impact on uplift and on the FTR account than would otherwise have been the case
5. Pricing rules will account for potential issues with regards to both import and export transactions

# Next Steps

- In consultation with stakeholders, during detailed design the IESO will develop and document:
  - Conduct and impact thresholds; and
  - Methodology to designate uncompetitive interties and the associated pricing rules
- As part of the HLD review process, the IESO welcomes feedback on the guidelines listed here