

Stakeholder Feedback and IESO Response

Market Development Advisory Group from January 21, 2020

Following the January 21, 2020 Market Development Advisory Group (MDAG) stakeholder meeting, the IESO invited stakeholders to provide comments and feedback on the material presented during the meeting.

The IESO received feedback on the TRCA Disbursement Methodology and Increasing Competition in Ancillary Services Through Regulation Services Procurement presentations from:

- Association of Power Producers of Ontario
- Energy Storage Canada
- MAG Energy Solutions
- Ontario Power Generation

The presentation materials and stakeholder feedback received can be accessed from the [MDAG engagement webpage](#).

Note on Feedback Summary

The IESO has summarized the feedback received, grouped by theme, and provided an IESO response for the feedback received on the TRCA Disbursement Methodology in the table below. The IESO is still reviewing the feedback on the Ancillary Services Through Regulation Services Procurement presentation and will post a summary and the IESO response to the MDAG engagement web page at a later date. Stakeholders will be notified when this document is available.

Impact

Summary of Stakeholder Comments

The IESO's impact assessment shows that consumers may receive little, if any, benefit and could be worse off following the proposed market rule amendments.

IESO Response

The IESO identified two scenarios in its impact assessment based on stakeholder feedback received:

1. the TRCA disbursement does not impact trading behaviour and
2. the TRCA disbursement impacts trading behaviour.

If trading behaviour is not impacted by the TRCA disbursement, holding all else constant, the TRCA surplus balance should remain the same size and changing the current disbursement methodology would have an incremental benefit to loads compared to status quo (~87% to loads).

On the other hand, if trading behaviour is impacted by the TRCA disbursement, (which would result in export bid prices being lowered), then it is possible that loads may not receive additional funds through a change in the TRCA disbursement methodology. However, in this case, there would be greater transparency and certainty in export transaction costs which would improve market efficiency, which ultimately benefits Ontario consumers.

Effective Date

Summary of Stakeholder Comments

Support IESO's decision to delay the effective date until November 2020. However, existing TR holders would be harmed if TRCA disbursement methodology is changed prior to November 2021.

IESO Response

In December 2019, the IESO proposed an effective date of the TRCA methodology change for May 2020. Based on stakeholder feedback received, the IESO decided to delay the implementation of the change to the November 2020 disbursement. In making this decision, the IESO considered different stakeholder perspectives including:

- Market Surveillance Panel who is recommending an immediate suspension of disbursements and an immediate change in methodology
- Ontario loads who will benefit from this change

Impact to exporters and TR participants, primarily on speculators in TRs who purchase TRs and are not hedging exports.

Comparison with other jurisdictions

Summary of Stakeholder Comments

The IESO proposal is different from the way most US financial transmission rights markets treat the distribution of transmission surpluses.

IESO Response

The IESO agrees that both the current methodology and the proposed future methodology are different from U.S. markets.

The designs of U.S. transmission rights (TR) markets are very different from Ontario's TR market design. U.S. TR markets are primarily focused on internal transmission rights and therefore fundamentally different to Ontario's design. In Ontario's market, TR and congestion rents are used only for instances of congestion reflected as surge pricing on interties (i.e. when there is more demand than capability).

From an accounting perspective, the term "surplus" is much different in U.S. markets compared to Ontario. U.S. transmission rights markets treat the TR revenues and the congestion funds separately and account for them in a much more granular way. TR revenues are typically allocated to loads and/or transmission owners. The remaining funds that include congestion rent less auction payout is typically referred to as the "surplus". The IESO acknowledges that in some jurisdictions, a portion of that remaining surplus, if any, could be allocated to exporters under certain circumstances.

Methodology

Summary of Stakeholder Comments

There is no difference between loads and exporters in the IESO's example of exports being able to avoid system charges by not consuming.

ETS rate is source of market inefficiency and the TRCA disbursement offsets this inefficiency.

The purpose of congestion costs is to allocate a scarce commodity to the party who is willing to pay the most for it. If there is a surplus, it is only fair that the surplus be returned to the parties who created the surplus in the past, regardless of whether such parties continue to be IESO market participants in the future.

IESO Response

Under the context of avoiding system charges, the IESO agrees that individual loads, like individual exporters, can avoid transmission charges by not consuming. The IESO has revised its TRCA surplus disbursement proposal to allocate surplus based on proportion of transmission cost paid to exporters and loads.

The IESO has received two differing stakeholder opinions on the impact of the TRCA surplus disbursement.

Some stakeholders do not believe the TRCA disbursement impacts trading behaviour. For these stakeholders, since their trading behaviour is not impacted by a future disbursement then the TRCA disbursement is unrelated to transaction costs or market efficiency.

On the other hand, some stakeholders do believe the TRCA disbursement impacts trading behaviour. Under this scenario, the IESO believes the current TRCA disbursement methodology incents export bids to be higher than warranted because of the expected future rebate from the TRCA. If the TRCA disbursement to exporters is significantly reduced, one of the positive impacts is that traders will pay less intertie congestion to export. As a result, export bid prices would be more reflective of hourly economics, which improves market efficiency.

The IESO agrees that intertie congestion rents are created by traders most willing to pay to use scarce intertie capacity to pursue trading opportunities. However, the IESO disagrees that the rationale for how to disburse the surplus should be based on who created the surplus in the past.

From an efficiency perspective, eliminating or significantly reducing TRCA disbursement to traders would incent export bid prices to be more aligned with market conditions.

From an equity perspective, there are several considerations on how the TRCA surplus funds should be allocated. The vast majority of system costs are borne solely by Ontario consumers and the Ontario transmission system, including interties was built to serve Ontario loads. In addition, loads pay much higher transmission rates than exporters, albeit for a different type of service. In this context, there is a strong rationale to return any surplus to offset these investment costs that have enabled traders to conduct their business. However, the IESO also acknowledges that on a cost basis, loads and exporters do contribute to the cost of the transmission system through their respective regulatory charges.

The IESO has considered these factors and the updated proposal to allocate TRCA surplus funds to the load and exporter participant classes based on proportion of transmission costs paid.