

May 3, 2013

Mr. Darren Finkbeiner
Manager, Market Development – Resource Integration
Independent Electricity System Operator

**Marketing d'énergie HQ Inc. /
HQ Energy Marketing Inc.**
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Subject: SE-110 Transmission Rights Market Review – Preliminary Comments of HQ Energy Marketing Inc.

Dear Sir:

HQ Energy Marketing Inc. (“HQEM”) is pleased to participate in the recently launched IESO initiative SE-110 Transmission Rights (“TR”) Market Review. HQEM attended the April 29, 2013, webinar hosted by the IESO, and hereby submits these preliminary comments.

Splitting in Two Phases

The IESO has announced¹ that this engagement will be split in two phases, the first being a review of the “confidence level” construct and the associated stabilization design, and the second phase being a “comprehensive review” of the TR market. The April 11, 2013, Stakeholder Engagement Plan notes that “*changes resulting from Phase 1 may be impacted by the comprehensive review of Phase 2.*”

HQEM recognizes that Phase 1 discussions are of great importance in terms of market design. However, since Phase 1 recommendations could potentially be impacted by Phase 2 discussions, as recognized by the IESO, we are of the opinion that merging both phases would prove more efficient than the actual proposal.

Barriers for Participation (IESO-Requested Feedback)

A first barrier for participation in the TR market is the actual constraint on market participants’ bids, limiting those to only one price-quantity pair per TR path. Consequently, it is impossible to submit a demand curve, reflecting participants’ value of different quantities of rights for a specific path.

Secondly, it is also impossible for market participants to resale or reassign their TRs (either in subsequent auctions, or bilaterally with other participants). This shortcoming increases the risk of TR acquisition, as participants can be stuck with their positions for months.

¹ SE-110 Stakeholder Engagement Plan and Phase 1 Discussion Paper (April 11, 2013)

Third, TRs in Ontario must be held for all hours within a month. A more flexible approach that could be evaluated in this engagement would be to auction TRs for on-peak and off-peak periods separately.²

Impacts on Trading (IESO-Requested Feedback)

As by definition TRs hedge the risk of congestion, they have the potential to impact physical trading decisions (imports and exports). This is even truer in Ontario, since the IESO does not support a two-settlement Day-Ahead market³ or an “up-to-congestion”⁴ product, both of which could help in reducing real-time congestion risks.

Please note that other factors are obviously at play here, and HQEM will point those out, as needed, in the following steps of this engagement.

Respectfully,



Matthieu Plante
Manager, Regulatory Affairs, HQEM

² On and off-peak periods are recognized conventions in energy trading.

³ A Day-Ahead market could arguably reduce the variability of real-time congestion (and thus reduce congestion risk), since traders would have an added incentive to bid in advance of real-time their import/export quantities. The associated virtuals product could also help in this matter.

⁴ Scheduling transactions up to a specified (as bid) value of congestion between two zones.