

Transmission Rights Market Review (SE-110)

Proposed Analysis – Phase 1

May 16, 2013



- To provide an overview of the IESO's proposed analysis relating to the TR market confidence level changes and associated stabilization algorithm implemented in 2004

- Background and review of stakeholder comments on Discussion Paper and Stakeholder Engagement Plan
- Proposed Analysis
- Next Steps

Phase 1

- Near term review of the confidence level and associated stabilization algorithm implemented in 2004
- Commencing immediately

Phase 2

- Longer term review of the TR market design fundamentals to address known concerns, MSP recommendations and look for overall improvement
- Commencing later in 2013

- Limited to a review of the confidence level implemented in 2004 to determine if it has achieved the benefits of:
 - increased import/export competition
 - increased energy trade
 - increased participation/ownership in the TR market
- Based on analysis and feedback, the IESO will consider other options and prepare recommendations

- Effective March 2004, the Board agreed to stabilize the increase in the TR Clearing Account and to return the surplus to the TR market by adjusting the volume of TRs sold via the following stabilization algorithm:

Acct Balance	Net TR Revenues for last 3 months	Monthly TR volume
> Threshold	Positive	Increase by 4%
> Threshold	Negative	Stay the same
< Threshold	Positive	Stay the same
< Threshold	Negative	Decrease by 4%

- Under this confidence level, auction revenues that had previously been available for disbursement to transmission customers to offset transmission service charges can be used to facilitate the sale of more TRs

- An increase in the number of TRs sold was intended to lead to:
 - increased hedged trades, which in turn would lead to more competition and more imports
 - increased reliability as a result of more imports
 - increased participation and competition in the TR market
- The IESO Board anticipated that the benefits of selling an increased number of TRs would more than offset the benefit of the transmission service offset that Ontario loads would otherwise have obtained

- 12 of the 17 paths are subject to a potential increase or decrease in TRs each quarter as a result of the stabilization algorithm
- Between April 2004 and December 2012 the amount of TRs sold on certain paths has increased 25 times by 4% increments
- Many paths have the potential for TRs to be sold at 100% of the available transfer capability

Discussion paper requested feedback on 3 questions:

1. Are there barriers for participation in the TR market that may have prevented you from purchasing the additional TRs made available through stabilization?
2. Does the ownership of TRs affect trading decisions, and why or why not?
3. If the quantity of auctioned TRs is reduced as a result of Phase 1 of this review, what effect would that have on trading decisions?

Feedback

- Phase 1 and Phase 2 should be merged since any changes resulting from Phase 1 may be impacted by Phase 2.

IESO Response

- Many paths currently have the potential for TRs to be offered at 100% of the available capability of the inertia
- Phase 2 design review could take a substantial amount of time for completion and implementation of any recommended changes
- IESO Board supports an immediate review of the confidence level design under Phase 1 followed by a comprehensive, longer term design review under Phase 2

Feedback: Barriers for Participation

- Bids are limited to only one P-Q pair per TR path which does not reflect participants' value of different quantities of TRs on a specific path
- Inability for participants to resell or reassign TRs increases the risk of TR acquisition
- Lack of flexibility: TRs must be held for all hours within a month

IESO Response

- Comments will be considered under Phase 2
- IESO recognizes that the comments indicate the basic TR market design may contain barriers to an increase in participation regardless of the number of TRs available

Feedback: TR Ownership and Trading Decisions

- TR ownership provides an effective hedge that mitigates congestion risk
- Ownership of TRs increases the probability that traders will engage in trade that otherwise may be deemed unprofitable
- A reduction in TRs would be an impediment to trade resulting in fewer trading positions, ultimately decreasing intertie activity and adversely affecting the overall efficiency of the market

IESO Response

- The proposed analysis will review the connection between TR ownership and energy trading

- Determine whether the current confidence level design has achieved the intended benefits of:
 - Increased import/export competition
 - Increased energy trade
 - Increased participation/ownership in the TR market

- Annual offer/bid quantities and annual imports/exports in the unconstrained schedule
 - as an aggregate of all paths
 - as an aggregate of paths subject to the stabilization algorithm
- Number of participants registered as importers/exporters, and number of these also registered in the TR market
- Percentage of hours with congestion in the unconstrained sequence, by path

- 2004 Expectation: an increase in available TRs would lead to an increase in competition and reliability
- Difficult to determine TR quantity impact on energy MCP due to other variables such as changes in demand, generation, underlying fuel costs, GA, uplifts
- Possible to examine offer/bid quantities, unconstrained schedules and intertie congestion to show if the MWs available for trade activity have been affected
 - these results are impacted by intertie capability, outages, loopflow and demand in neighbouring markets.

Increased Import/Export Competition Analysis Limitations (cont'd)

- Available MWs can only be attributed to an increase in TRs if the MWs are offered by TR market participants.
- Any increase in competition due to an increase in import/export market participants can only be attributed to TRs if the participants are also registered as TR market participants

- Annual imports/exports in the real-time dispatch constrained schedule
 - As an aggregate of all paths
 - As an aggregate of paths subject to the stabilization algorithm
- A comparison based on data from April and August of each year from 2003-2012 to look at how many MWs are actually being hedged on each path
 - Based on the dispatch constrained schedule and the number of TRs held by each participant trading

- 2004 Expectation: an increase in energy trade, specifically aimed at imports
- Analysis will include both imports and exports
- Results are directly impacted by the variables of demand and price in Ontario and neighbouring jurisdictions and the analysis will not determine what portion of the change is attributable to TRs alone
- There may be contractual agreements between TR holders and energy traders that the IESO is not aware of and which would not be captured in a “hedged trades” analysis
- April analysis captures shoulder, SBG season
- August analysis captures high demand season

- Number of participants registered in the TR market at year end
 - Number active in TR market (bidding in auctions)
 - Number owning TRs
- Quantity of TRs owned
- Market share on the intertie – number of TR holders and the quantity owned on each path
- Rate of Return for TR holders on a speculative basis only

- Rate of Return analysis will not reflect that participants who trade will have additional costs and revenues which will not be captured

- May 23 - Deadline for stakeholder feedback on proposed analysis plan
- May 30 – IESO posting of responses and final analysis plan
- July/August 2013 – Stakeholder meeting to discuss findings and recommendations (materials posted in advance)
- September 2013 – IESO Board Meeting