

****Nature of Questions/Comments:**

Stakeholders provided feedback to the following questions:

Question 1: Are there barriers for participation in the TR market that may have prevented you from purchasing the additional TRs made available through stabilization?

Question 2: Does the ownership of TRs affect trading decisions, and why or why not?

Question 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?

Questions/Comments that are not related to Questions 1, 2 or 3 are classified as 'General'



Item #	Respondent Name	SE-110: TR Market Review - Questions/Comments	Submission Date	**Nature of Questions/Comments	IESO Response
1	HQ Energy Marketing Inc.	The IESO has announced 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.	May 3, 2013	General	Thankyou. The IESO recognizes that Phase 1 recommendations could be impacted by the comprehensive design review under Phase 2. However, given that many paths currently have the potential for transmission rights to be offered at the available capability of the intertie, the IESO feels it is necessary to immediately review the existing stabilization algorithm. Phase 2 will consist of an extensive design review which could take a substantial amount of time to completion and implementation of any recommended changes. Therefore, the IESO Board supports an immediate review of the existing "confidence level" and associated stabilization design under Phase 1, followed by the comprehensive design review of the TR market.
2	HQ Energy Marketing Inc.	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.	May 3, 2013	Question 1	Thankyou. The IESO will further consider this comment under Phase 2 of the review but recognizes that the basic TR market design may contain impediments to an increase in participation.
3	HQ Energy Marketing Inc.	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.	May 3, 2013	Question 1	Thankyou. The IESO will further consider this comment under Phase 2 of the review but recognizes that the basic TR market design may contain impediments to an increase in participation.
4	HQ Energy Marketing Inc.	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. [Footnote: On and off-peak periods are recognized conventions in energy trading.]	May 3, 2013	Question 1	Thankyou. The IESO will further consider this comment under Phase 2 of the review but recognizes that the basic TR market design may contain impediments to an increase in participation.
5	HQ Energy Marketing Inc.	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 market [Footnote: 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.] or an “up-to-congestion” product [Footnote: Scheduling transactions up to a specified (as bid) value of congestion between two zones.], both of which could help in reducing real-time congestion risks.	May 3, 2013	Question 2	Thankyou. The proposed analysis under Phase 1 will review the connection between TR ownership and energy trading.
6	Ontario Power Generation	OPG does not believe that there are any significant barriers to participation in the Transmission Rights Market (TR). However, the current TR market has correctable deficiencies related to the bidding mechanism and TR composition. OPG is of the belief that improvements to the design would increase participation and improve the overall effectiveness of the TR market.	May 3, 2013	Question 1	Thankyou. The IESO will further consider this comment under Phase 2 of the review but recognizes that the basic TR market design may contain impediments to an increase in participation.
7	Ontario Power Generation	Generally speaking the ownership of TRs forms an important component of the trading decision. Part of the assessment of the viability of trade incorporates a risk premium; owning TRs provides an effective hedge that mitigates congestion risk and therefore reduce this risk premium. Ownership of TRs increases the probability that traders will engage in trade that otherwise may be deemed unprofitable.	May 3, 2013	Question 2	Thankyou. The proposed analysis under Phase 1 will review the connection between TR ownership and energy trading.
8	Ontario Power Generation	TRs are an important risk mitigation tool for physical energy traders and therefore the quantity available to these traders will ultimately affect the overall level of activity at the interties. A reduced TR quantity would result in more traders operating without TRs that consequently evaluate trading opportunities with a higher risk premium to cover possible congestion losses. The lack of TRs would be <i>de facto</i> an impediment to trade resulting in fewer trading positions, ultimately decreasing intertie activity and adversely affecting the overall efficiency of the market.	May 3, 2013	Question 3	Thankyou. The proposed analysis under Phase 1 will review the connection between TR ownership and energy trading.

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9	Sygration	Consider allowing laminated bids in the auction. Currently, any bid on a path only allows a single price-quantity. This, along with the fact that short auctions only have a single bid window acts as a barrier to new TRA participants. Some participants may undervalue the rights and may under-bid the (entire) quantity for a path. Alternatively, a participant may bid for less rights (MW) than they could afford if they feared the auction would clear at too high of a price. Since there is no feedback on the market value of rights until the auction is finished, participants do not receive a sense of the value nor an opportunity to change their bid price/quantity. A solution would be to allow more than one bid for any path at different quantity/prices, much like what is done in the Ontario Energy and OR markets, leading to a more efficient market price. Participants could set their bid laminations to reflect their differing levels of risk when hedging imports/export contracts.	May 8, 2013	General	Thankyou. The IESO will further consider this comment under Phase 2 of the review.
10	Sygration	Consider publishing the number of rights sold but were later returned. The post-auction data identifies the number of rights sold, but if some of these were later returned (i.e. due to payment default) these are not reported. As a result, there appears to be inconsistencies between the amount of rights available and the total sold – leaving some to feel that some rights remained, or that auctions were somehow oversold.	May 8, 2013	General	Thankyou. The IESO will further consider this comment under Phase 2 of the review.
11	Sygration	Consider breaking up the NYSI interface into 2 separate zones. While this may be out of scope of this stakeholder engagement, given the enormous distance between the New York interface at Niagara Falls and the New York interface east of Brockville, it would seem that combining them as a single intertie for the purpose of Transmission Rights leads to inefficiencies of that market.	May 8, 2013	General	Thankyou. The IESO will further consider this comment under Phase 2 of the review.
12	Sygration	Part of the review should include an assessment of the+A1 efficiency of the TR market and identify if there is sufficient competition. The value placed on the rights should approach that of the ICP paid to rights holders, minus some value attributed primarily with risk (i.e. that the congestion does not occur and the rights holder paid too much). A large gap between the cost of rights (TRA MCP) and the payout (ICP) raises the question if there is enough competition in the TR market. This may be the case as the report focused on the impact of congestion rent on the TR Clearing Account as opposed to auction revenue. The TR Market Review should assess the efficiency of the market, and how the rate of return for rights holders have changed over the years.	May 8, 2013	General	Thankyou. The proposed analysis under Phase 1 will review the rate of return over the years.