

May 23, 2013

Independent Electricity System Operator  
Stakeholder Engagement

## **Re: SE 110 Transmission Rights Market Review – Phase 1**

OPG appreciates the opportunity to comment on the proposed review of the TR confidence level and stabilization algorithm design as part of the Phase 1 of the Transmission Rights Market Review.

OPG's comments and suggestions are divided in two categories: the specifics of the proposed analysis, and the broader application of analytical results in evaluating the existing confidence levels and stabilization algorithm.

### Scope of Proposed Analysis

In OPG's understanding, the goal of the proposed analysis is to draw conclusions based on an evaluation of the correlation between changes in TR volume due to the existing stabilization algorithm and changes in intertie competition, energy trade, and participation in the TR market. In order to maximize the value of the analysis, the granularity of the data should match the lowest common variable resolution. In this particular case, since the adjustment of quantity of short term TRs is performed quarterly, OPG encourages the IESO to perform all analysis at a quarterly resolution, thereby capturing variability that would be potentially lost in an annual aggregation.

### **Increased Import Export Competition**

- Instead of aggregating results across *stabilization adjustable* and *all* paths, the relevant analysis should be performed on an individual path basis to better capture changes due to fluctuations in TR volumes rather than other market factors. OPG also suggests that the offer/bid quantities are further broken down by participants that are registered in the TR market and ones that are not.
- OPG does not see the *import/export unconstrained schedule totals* as an appropriate metric of increased import/export competition. While the offer/bid quantities may provide an indication of participation that can be tied to an increase in TR availability, the unconstrained schedule is extremely sensitive to the demand and price in Ontario and neighbouring markets and does not lend itself as a relevant competition indicator.
- An analysis of the *total number of monthly TRs purchased* (as percentage of *total available* in the monthly auction) should also be included to ensure that the additional TRs made available via the stabilization algorithm were utilized.

### **Increased Energy Trade**

- While recognizing the computational burden of analysis spanning 9 years, OPG believes that in order to establish a strong link between TR volume availability and "hedged" trade, the IESO should analyse a sufficiently large number of monthly data. If the IESO is committed to focusing exclusively on April and August data, OPG suggests that a high net import and export year are analyzed in their entirety to ensure that the assumed relationship holds true with other months within those years. OPG cautions the IESO to recognize that there could be Market Participants

with seasonal needs and limiting the analysis to two specific months may limit the validity of the analysis.

- As mentioned previously, both the constrained and unconstrained schedules are “directly impacted by the variables of demand and price in both Ontario and neighbouring markets”<sup>1</sup>. Therefore, OPG sees no additional benefit of constrained schedule import/export analysis outside of the timeframes used for the “hedged” transaction study.

The analysis should also include a summary of all available TRs in the monthly auction against change attributed to stabilization rather than transfer capability variability.

#### Application of Analysis Results

The challenge with correlation analysis lies in ensuring that any ostensible relationship between variables is correctly attributable to a causal link rather than a secondary unknown variable. OPG encourages the IESO to be conservative in drawing conclusions based on perceived parallels between changes in available TRs and changes in participation and trade.

Furthermore, many of the drivers behind the development of a stabilization algorithm were established in 2004 with an expectation of increased import competition driving towards gains in reliability. Given the changes of import/export net scheduling, making Ontario primarily a net exporter, the IESO should provide rationale to reaffirm the initial intent as relevant. Without such rationale, many stakeholders may feel that any analysis against a historical intended benefit is missing a relevant objective.

Lastly, OPG encourages the IESO to make available to stakeholders all appropriate data underpinning the analysis, subject to compliance with confidentiality principles. Availability of such data will enable participants to review the analysis with respect to their individual behaviour in the TR market and provide the IESO with further feedback and comments.

Regards,

Vlad Urukov  
Senior Market Specialist  
Market Affairs  
Ontario Power Generation

---

<sup>1</sup> Transmission Rights Market Review, Phase 1 – Proposed Analysis, May 9, 2013, p 2