

Transmission Rights Market Review (SE-110)

Minutes of Meeting – July 25, 2013



Date held: July 25, 2013	Time held: 9:00 am	Location held: IESO
Attended:	Company Name:	Attendance Status: (A)ttended; (T)eleconference/Webinar; (R)egistered
Participating Stakeholders		
Brookfield Renewable Power	Cormier, Pascal	T
Brookfield Renewable Power	Laurin, Marc-Andre	T
Bruce Power	Viswanathan, Samira	T
Consultant	Dorey, Steve	A
Customized Energy Solutions	Chintapalli, Raj	T
Goreway Power Station	Paul, Rob	A
Goreway Power Station	Maddix, Melanie	A
Goreway Power Station	Betchev, Atanas	A
HQ Energy Marketing	Plante, Matthieu	T
Hydro One	Maljukan, Sasa	R
Manitoba Hydro	Wells, David	T
Market Assessment Unit on Behalf of Market Surveillance Panel	Hastings, Martin	A
Market Assessment Unit on Behalf of Market Surveillance Panel	Kelly, Brandon	A
Nexant Inc.	Hendrickson, Brent	R
Ontario Power Generation	Cheung, Erica	A
Ontario Power Generation	Urukov, Vlad	A
Shell Energy	Peddles, Andy	T
Sygration	Hilbig, Tom	A
TransCanada	Kuntz, Margaret	T
IESO	Agnoletto, Robert	A
IESO	Bull, Tabatha	A
IESO	Finkbeiner, Darren	T
IESO	Harrison, Susan	A
IESO	Short, Rebecca	A
Please report any corrections, additions or deletions to: stakeholder.engagement@ieso.ca		

All meeting material is available on the IESO web site at:
http://www.ieso.ca/imoweb/consult/consult_se110.asp

Item 1 Welcome, Review of Meeting Agenda

Susan Harrison of the IESO welcomed the attendees to the Transmission Rights (TR) Market Review Consultation (SE-110). Introductory remarks were made including an overview of the agenda.

Item 2 Presentation

Rebecca Short led the group through the presentation:

<http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130725-Presentation.pdf>.

The presentation included an overview of the IESO's Phase 1 Analysis: Results and Recommendations paper: <http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130725-TR-Market-Review-Phase-1-Analysis.pdf>

Member Questions, Comments and Discussion, with the IESO's response in italics:

A member asked if the existing confidence level and stabilization algorithm is only applicable to short-term (ST) TRs.

The IESO responded that the existing confidence level and stabilization algorithm is only applicable to ST TRs.

Editorial Note: In accordance with the market rules Ch.8, sec 4.7.1, the IESO Board of Directors must establish a confidence level to reflect the degree to which the congestion rents collected will be sufficient to cover the IESO's TR payment obligations. The IESO determines the number of TRs available for auction based on the forecasted capability of each intertie reduced by the confidence level (reflecting the TTC reduced by applicable margins to take into account ambient conditions, system security, outages, and one line/element out of service on multi-circuit or multi-element single-circuit paths). This confidence level essentially establishes the TR base quantity and is used to determine the number of LT and ST rights to be offered. This confidence level was not impacted by the 2004 changes.

In 2004, the IESO Board agreed to modify the confidence level on multi-circuit/multi-element paths. This was implemented by increasing or decreasing the ST TRs based on net revenues and the disposition of the TRCA, LT TRs continued to be offered based on the established base quantity (the original confidence level). The charts in appendix F demonstrate that the paths not subject to the confidence level changes do not have ST rights sold above the base quantity because they are limited to the original confidence level.

In summary, both LT and ST rights are subject to a confidence level, but only ST rights on multi-element/multi-circuit paths are adjusted in accordance with the 2004 confidence level changes.

Import/Export Competition Analysis

A member noted that Appendix A is titled incorrectly.

The IESO will make the correction.

A member requested the IESO to provide the correlation values for each graph.

The IESO responded that they would consider the provision of these values and by when.

Editorial Note: The IESO will publish the correlation coefficients in appendices A and D. Stakeholders have expressed concern that the IESO's conclusions are not necessarily supported by the graphical results due to the inability to separate market conditions from the analysis. Therefore, the IESO similarly cautions stakeholders that since the correlation coefficients are derived from the same data they are also not independent from market conditions.

A member noted that paragraphs 3 and 4 on page 5 of the report refer to offers, but should be noted as bids.

The IESO will make the correction.

A member asked for clarification from the IESO on the rationale behind reviewing both imports and exports as his understanding is that the original intended benefit was an increase in imports specifically and that the extension of the review to both imports and exports was at the request of stakeholders.

The IESO responded that when the confidence level changes were implemented in 2004 the market conditions were such that an increase in imports was considered a beneficial outcome. In order to provide a more thorough evaluation of the market as a whole, it was the IESO's decision to extend the analysis to review the impact of the confidence level changes on both imports and exports.

During the discussion of import/export competition analysis related to market participant registration (Appendix B) a member inquired whether the IESO looked at which participants had supplied prudentials for participation in the TR market.

The IESO responded that they did not look specifically at prudentials, but that the results indirectly capture this by evaluating which participants actually bid into TR auctions. In order to bid into auction, the appropriate prudential requirements must be met.

A member asked for clarification on Appendix B in relation to the IESO's comment that since 2010 participation has decreased while TR availability has increased.

The IESO responded that as the confidence level and stabilization algorithm has continued to increase the number of available TRs, the number of registered traders who are also registered as TR market participants and are actively participating in both the TR market and the energy market has decreased.

Energy Trade Analysis

A member requested further discussion on the ON-NY graph in appendix D in relation to the discussion on presentation slide 9.

The IESO reviewed the graph and discussed as requested.

In relation to the ongoing discussion on the ON-NY path, a member commented that trader behavior, whether it is for imports or exports, is affected by market conditions first and foremost, and that market conditions may be hiding any correlation the increase in TRs may have had on trade. The member commented that unless the IESO's analysis is normalized against market conditions the member did not think that the IESO could be definitive that there is no correlation between an increase in TR availability and energy trade. The member stated that TRs are a hedging tool and purchase of a TR does not necessarily mean that it will be used for trade if there is no profit to be made.

The IESO agreed and stated that they believe that this could be the reason that the increase of TRs will not result in an increase in trade. The IESO went on to state that they understand that participants who own TRs would not trade unless appropriate profit margins were met; however, the IESO has seen through the analysis that many participants who do not own TRs are continuing to trade, indicating that there must be some profit availability.

A member stated that if the IESO concludes from this analysis that there is no correlation between increased TR availability and energy trade, then the IESO should take a cautious approach to reducing the TRs available for sale.

Based on the preceding discussion about market conditions a member asked if slide 10 should still state that there is no definitive correlation between the continued increase in TR availability and energy trade.

In response, the IESO requested a suggestion for an alternative sentence.

The member clarified that the study period spans 10 years which would include a number of market conditions (different trading profit opportunities, scarcity, etc.) yet the results still do not indicate a correlation.

A member stated that there are ways to statistically isolate the increase and that the member understands that the IESO did not do that as part of the analysis, but asks that the limits of the analysis to be stated in the recommendation to the Board.

The IESO agreed.

Editorial Note: The IESO's analysis plan indicated that results are directly impacted by the variables of demand and price in both Ontario and the neighbouring jurisdictions (market conditions). The IESO clearly stated that it did not intend to attempt to analyze what portion of the change can be attributed to TRs alone.

TR Market Participation/Ownership Analysis

A member asked if the IESO expected the registered/active participation numbers in the TR market to continue to increase indefinitely.

The IESO responded that they did not expect the participation to continue to increase indefinitely; however, since the level of participation has reached a plateau the IESO does not see a reason to continue to increase TRs.

Recommendations

A member asked if the IESO is expecting there to be less auction revenues in total as a result of the recommended changes.

The IESO responded that there is not an expectation in regards to auction revenues. If the number of TRs were decreased the TR market clearing price may increase, which would impact the auction revenues.

A member asked where the money would come from to meet the IESO's TR payment obligations if the account goes negative.

The IESO responded that with the recommended approach of selling TRs such that congestion rents collected approximately equal TR payment obligations it does not expect the account to go negative. However, if this were to happen the TRs would be paid by loads through uplift, and then later reimbursed in accordance with current market rules.

A member inquired whether the IESO Board will be involved in determining how the implementation of a 'rents equals rights' approach will be achieved.

The IESO responded that its recommendation to the Board will be a 'rents equals rights' approach. How we achieve the approach will be stakeholdered following a Board decision.

A member asked if the IESO has any idea of how many TRs will be available on Day 1 of the implementation of the recommendation.

The IESO responded that it does not at this time know how many TRs will be available and that the number will be stakeholdered. The IESO will look at historical TR data on a path by path basis to determine if there was an optimal value of TRs at which congestion rents collected approximately equaled the IESOs TR payment obligations.

A member stated that once the analysis of the historical TR data has been completed a cautious approach should be reflected in the proposed TR levels due to the fact that the analysis did not normalize against other factors.

The IESO thanked the participants for their comments of this nature, but reminded participants that the analysis that provided was in accordance with the analysis plan presented to the group in May of this year and that any stakeholder comments or requests for additional analysis that were made following the May meeting were adopted by the IESO. The reason for that meeting was to ensure that the IESO and stakeholders were in agreement about how the analysis would answer the specific questions.

A member stated that while they feel the IESO should try to normalize for Market conditions, they understand that that is difficult and may require an overly intensive analysis for this purpose. However, the member wants to be sure that the IESO takes those unknowns into account when preparing the implementation plan.

A member asked if the implementation of the recommendation would look at the base quantity and long-term (LT) rights.

The IESO responded that they will need to look at a combination of both base quantity, LT and ST rights.

A member asked for the expected date of implementation, and whether a change to the threshold could be implemented in advance of the confidence level change.

The IESO responded that both the threshold and the confidence level will become effective at the same time. The Board approves the confidence level and not the implementation details.

A member asked about the reason for the recommendation to reduce the threshold from \$20 million to \$10 million.

The IESO responded that with a congestion rents equal to TR payment approach there is a reduced likelihood of overselling. The IESO will further consider the threshold.

A member commented on the need for the IESO to concentrate on improving the TR market to make it more attractive, which would increase TR participation and may increase trade, etc.

The IESO agreed and stated that this is part of the comprehensive review of Phase 2. The Phase 1 analysis discussed at this meeting is only intended to look at the confidence level for the TR market that we have today.

A member asked if the implementation details require Market Rule or Market Manual changes and, if so, will they go to the Technical Panel.

The IESO responded that the proposed changes should not require Market Rule changes; however, they will require Market Manual changes which would be subject to the normal Market Manual stakeholdering process and would not need to go to the Technical Panel.

Item 3 Next Steps

Rebecca Short of the IESO thanked all members for their participation, and reminded stakeholders to submit any comments on the Phase 1 Analysis: Results and Recommendations paper by August 2.

Susan Harrison then concluded the meeting.

Action Item Summary				
#	Date	Action	Status	Comments
1	July 25, 2013	IESO to post corrected version of the Phase 1 Analysis: Results and Recommendations paper to clarify offers v. bids on page 5, to correct the Appendix A title and to publish the correlation coefficients related to the results in Appendix A and Appendix D.	Open	