

August 2, 2013

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Subject: Transmission Rights Market Review (Phase 1) – Comments of HQEM

Dear Sir:

HQ Energy Marketing Inc. (“HQEM”) is pleased to have this opportunity to respond to the IESO’s request for feedback on its recommendations for Phase 1 of the Transmission Rights (“TR”) Market Review. HQEM attended all the meetings pertaining to this engagement and hereby submits these comments, for consideration.

IESO Recommendation

The IESO has announced¹ on July 25th that it plans to recommend for approval to the IESO Board, the following amendments to its market rules:

- Change the confidence level such that congestion rents collected on each path are approximately sufficient to cover the payouts to TR holders on that same path ;
- Reduce the threshold of the TR clearing account from \$ 20M to \$ 10M.

This recommendation stems from an analysis that was undertaken by the IESO to understand if the emission of TRs has been related, in the past years, to change in intertie competition, energy trade and participation in the TR market. The rule the IESO uses in its assessment of relationship is the value of correlation coefficients; however, to this date, those correlation coefficients have not been provided to stakeholders. The IESO concludes that TR availability is (i) not correlated with intertie competition, (ii) not definitively correlated with energy trade, and (iii) not substantially correlated with TR participation.

Finally, at the July 25th meeting, the IESO recognized that it had not evaluated the impact of its recommendations on the number of TRs being auctioned at each path.

¹ See <http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130725-Presentation.pdf>

HQEM Comments

As was explained by the IESO², Phase 1 was undertaken separately from Phase 2 as a result of the necessity to “*immediately review the existing stabilization algorithm*” because some paths had the “*potential for transmission rights to be offered at the available capability of the inertia*”. The IESO recognized that, in its evaluation, some aspects of the problematic would not be studied³. As an example, the IESO chose not to analyze what portion of the variation in trade was due to TRs alone. In light of the analysis results, however, it seems unclear whether or not a relationship actually exists in all cases. On that point, the risk of reaching inconclusive results using a non-statistical study was well articulated in OPG’s May 23rd comments⁴.

HQEM understands the element of urgency that was behind the review of the stabilization algorithm, which was treated separately from other fundamentals of the TR market. However, in this context, solutions to the potential overselling of TRs need not be permanent or as prescriptive as the IESO’s. This is especially true of this engagement where the IESO has not studied the impact of its recommendations on the number of TRs auctioned, and where the results seem inconclusive and are partly unavailable for review (i.e. correlation coefficients).

Finally, two stakeholders (OPG and HQEM) confirmed⁵ that exports and imports could (at least potentially) be affected by a change in the number of TRs being auctioned. No stakeholder voiced a contrary opinion. This is at odds with the results of the IESO analysis.

HQEM Recommendation

A more careful approach should be adopted in this case, notably recognizing (i) the limits of the non-statistical analysis in light of the first results, and (ii) that Phase 2 discussions might lead the IESO to draw different conclusions. HQEM thus recommends a temporary amendment that would prevent overselling of TRs and allow some time to think through all of the implications of different (yet possibly related) market features (possibly during Phase 2). Moreover, in this case, any amendment should be implemented progressively, and reports should be provided periodically to stakeholders.

Respectfully,

Matthieu Plante
Manager, Regulatory Affairs, HQEM

² See <http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130516-comments.pdf> (page 1 of 2)

³ See http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130530-Final_Analysis.pdf (page 2 of 3)

⁴ See http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130523-OPG_comments.pdf (page 2 of 2)

⁵ See HQEM comments http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130503-Hydro_Quebec_Energy_Marketing.pdf and OPG comments http://www.ieso.ca/imoweb/pubs/consult/se110/se110-20130503-Ontario_Power_Generation.pdf