

May 16, 2014

Mr. Brian Rivard
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HQ Energy Marketing Inc.**
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Subject: TR Market Review (SE-110) – Phase 1 Implementation – HQEM Feedback

Dear Sir:

HQ Energy Marketing Inc. (“HQEM”) appreciates this opportunity to comment on the IESO proposed recommendations to implement Phase 1 of the TR Market Review (SE-110). Recognizing that the IESO Board of Directors (“Board”) revised, in September 2013, the confidence level¹ associated with emissions of TR, the IESO drafted recommendations which it plans on implementing shortly. HQEM presents below general comments on those recommendations.

TR Quantities Offered

In the implementation timeframe, both the Base Quantity and the Initial Ideal Quantity are to be set based on a simple review of historical data (April 2012 to March 2014). While HQEM has no issue with an increased reliance on short-term auctions to provide more flexibility to the IESO, we are concerned that looking at past information without adjustments might carry over data that should not be relied upon for efficiency purposes. For example, while the IESO proposes to expand its outage assessments mechanism going forward, past data does not take those improvements into consideration. In this case, it could lead to months of TR quantities being offered in too small quantities, and, in turn, to revenues forgone by the IESO, along with potentially less trading activities. Other improvements to outage assessments will certainly be incorporated in the future, and then again, relying rigidly on past data will not immediately reflect those.

Alternatively, the IESO could use a forward-looking approach, based on forecasted available transmission capacity on each intertie, to which a percentage factor could be applied. This factor could be based on past experience, but continuously adjusted so it fits expected operations. Using a fixed period of rolling 24 months, as the IESO proposes, seems too stringent in the present context. This approach will cause over/underfunding to be carried over simply because the historical data contain an anomaly (for example, an exceptionally over/underfunded month) or discontinued practices (ex.: outage assessments).

¹ The new confidence level is established such that congestion rents collected on each path should more or less cover the IESO TR payments.

In the maintenance timeframe, HQEM is concerned that this issue could resurface when defining the dead-band or the increment quantity. As advocated herein, those variables should be based on forward-looking information, to the extent possible.

Pre-Auction Reports

The IESO is proposing to offer long-term TRs at approximately 25% of the new base quantity even if total long-term TRs outnumber the initial ideal quantity. The impact of this practice in the implementation timeframe is, for some interties, to completely stop offering TRs in the short-term auctions. Because stakeholders are not privy to the exact calculation done by the IESO to derive the Initial Ideal Quantity and the Base Quantity, HQEM requests that the IESO provide stakeholders with some visibility on the available quantities of short-term TRs for all future months of the implementation timeframe and for all TR paths. This could be done by posting tables such as those found in the latest IESO SE-110 presentation (“TR Presentation”)² in each Pre-Auction Report.

At the May 6, 2014 meeting, HQEM asked the IESO to provide information on the process of revising its Initial Ideal Quantity. The IESO responded³ on May 13, 2014, that a revision will occur some time after “*the sliding historical two-year period ending September 2014*” data becomes available. Further, the IESO committed to review the Initial Ideal Quantity if the new calculations differ by more than 100 MW or 50%. HQEM fails to understand why the IESO would leave TR auction revenues “on the table” (in the case of insufficient TRs being offered), despite the fact that those quantities are limited. In our mind, any adjustment that could support the Board’s decision on seeking equilibrium between TR payments and congestion rents should be pursued, no matter how small. Finally, HQEM recommends that any change to the quantities listed on page 13 of the TR Presentation be communicated, minimally in the Pre-Auction Reports.

Follow-Up Reports

Striking a perfect balance between congestion rents and TR payments is no easy achievement, and stakeholders and the IESO will certainly gain to learn from past experiences in that respect. We hereby propose to implement a periodic report, where the IESO would present general results of the TR market auctions, as well as a sensitivity analysis on varying level of TR quantities on market flows, congestion rents and TR auction revenues. TR market participants and end-use consumers would presumably be interested in evaluating the performance of those new TR provisions through key metrics.

Respectfully,

Matthieu Plante
Manager, Regulatory Affairs, HQEM

² TR Market Review – Phase 1 Implementation Recommendations, May 6, 2014 (revised version), pages 14-15.

³ Draft Minutes of the TR Market Review May 6, 2014 Meeting, page 2.