

**May 12, 2014**

Independent Electricity System Operator  
Stakeholder Engagement

**Re: SE 110 Transmission Rights Market Review – Phase I Implementation Recommendations**

OPG would like to thank the IESO for the opportunity to comment on the planned phase I implementation recommendations presented at the May 6<sup>th</sup>, 2014 webinar meeting.

Physical movement of electricity across the interties enhances the stability of the Ontario market. It ensures adequate supply of power during periods of high demand/low generation capability. It allows electricity to be sold to neighbouring jurisdictions when there is excess Ontario generation capability, preventing unnecessary & undesirable plant manoeuvring, which decreases long term costs.

Electricity imports and exports are partially facilitated through TR holders; who rely on TRs to help create price certainty when moving electricity in and out of Ontario. Reducing the quantity of TRs offered could harm the Ontario market through reduced participation and/or flow across the interties. IESO's Phase 1 Analysis for SE-110 showed that when ON-NY export TR quantities increased that trade activity increased, conversely it can be said that if TR quantities decrease trade activity may likely decrease. The same can also be stated for ON-MICH TRs. OPG has some concerns towards the proposed changes to TR quantities offered at the TR auctions, particularly the ST auctions. The IESO is proposing a significant decrease in the upper TR offering limit for most interties. Given certain market conditions, a reduction in trader activity may adversely impact the IESO in periods of SBG as well as during period of supply shortages.

OPG's main concern is with the proposed Initial Ideal Quantities. OPG understands that the Initial Ideal Quantities (upper TR auction limit) were determined by review of historical Congestion Rents and intertie congestion price (ICP) on each path from a study period of April 2012 – March 2014. OPG is concerned that some of the data used in the study period may not be relevant for future planning purposes.

The IESO has calculated the Initial Ideal Quantity for each TR Path by dividing the sum of historical Congestion Rents by the sum of ICP. Congestion Rents should be approximately equivalent to the sum of flow multiplied by ICP. Should this assumption hold true, mathematically the IESO is proposing to use the historical weighted average flow (when the tie is congested) to set the Initial Ideal Quantity.

The historical information used contains both unplanned and planned intertie reductions. Using historical forced outages seems like a prudent methodology to determine how often the unexpected can occur. When trying to determine the impact of planned reductions, it is more prudent to use actual planned outages, rather than a historical benchmark. A more forward viewing approach in terms of outages compared to historical would be a better method to determine the Initial Ideal Quantities.

As an extreme example, if a TR path was reduced to 10% of the normal operational capability during the entire two year historical study period the maximum value the Initial Ideal Quantity could obtain would

be 10% of the normal operational capability. This is true even if the TR path was expected to operate at 100% of normal operational capability in the future. While the proposed maintenance algorithm may eventually bring the TR quantity up, this would only occur very gradually significantly limiting the Auction Revenue available, especially for the first year where no maintenance is expected to be implemented.

An example of an actual long term planned outage is in 2012 when there was a significant Ontario-New York transmission line outage for the entire year. This outage had a significant long term impact on the NY tie capability, but is not relevant for future planning. The methodology proposed by the IESO does not properly account for such irregularities.

Further, the proposed methodology treats the Initial Ideal Quantity as if it were a maximum, when in fact it is a historical average. Specifically, the IESO is recommending that TRs offered on each path be limited to the lowest of:

- The calculated Initial Ideal Quantity;
- The expected transmission transfer capability minus applicable margins with consideration to outages (single/multiple, internal/external, planned/foreseeable or concurrent/consecutive) that have an impact for more than 7 days;
- The expected transmission transfer capability minus applicable margins with consideration to non-tie line constraints (for example, a constraint on an internal/external interface that imposes a limit on imports/exports).

While TR quantities can be less than the Initial Ideal Quantity, they can never be more. Assuming there are transmission outages in the future, the actual average quantity of TRs offered per path will mathematically be less than the Initial Ideal Quantity. If the Initial Ideal Quantity is based on the quantity of TRs “such that the congestion rents collected by the IESO will be approximately equal to the IESO’s TR payment obligations” then the IESO has proposed a solution where congestion rents collected by the IESO will likely exceed TR payment obligations. Therefore using the Initial Ideal Quantity as a maximum, especially for ST auctions seems unnecessarily conservative.

Further, the current practice, established by the IESO, is for *all* intertie related payments and obligations to be revenue neutral. Specifically, fluctuations in the Transmission Rights Clearing Account, which is composed of Auction Revenues + Congestion Rents + Interest – Transmission Rights Payouts, are managed through offered TR quantities. Should the Transmission Rights Clearing Account contain a surplus amount it is used to offer more TRs, or at the IESO Board’s discretion disbursed to loads.

The new methodology proposed by the IESO will set Congestion Rents equal to Transmission Rights Payouts. This modification will most certainly create a surplus in the Transmission Rights Clearing Account. There is no mechanism or methodology in place that shows how the surplus (TR auction revenues) will be disbursed. OPG has been told that the TR Auction Revenues will be disbursed at the discretion of the IESO Board. However considering the auctions revenues were provided by the market participants, OPG believes market participants should be privy to how those funds are to be utilized.

Based on the historical numbers provided by the IESO there was a \$50.8 million deficit between the Congestion Rents and Transmission Rights Payouts for the study period; however, OPG estimates that Auction Revenue collected for the relevant TRs exceeded \$108 million. The net impact during the study period, before disbursements, has been an increase in the Transmission Rights Clearing Account of \$57.2 million. Transmission Rights Clearing Account has been self funding, and a dramatic reduction in the number of TRs offered seems unnecessary.

Further, given the conservative nature of the Initial Ideal Quantity proposed OPG is concerned about implementing a revised methodology before a maintenance plan is in place and reviewed by the market. OPG believes that implementation of these proposed changes to reduce TR quantities should not happen until the maintenance to the TR quantities can be implemented. OPG believes that it would be unreasonable to delay any kind of maintenance for an entire year, especially if the changes are this drastic. Maintenance should start as soon as possible, even if the public reports are not yet complete.

OPG recommends the following:

1. Make the hourly data used to determine the Initial Ideal Quantity publically available so it can be reviewed by market participants prior to approval and implementation.
2. Determine if the Initial Ideal Quantity is meant to represent the maximum or average number of TRs available for sale.
  - a. If the Initial Ideal Quantity is meant to represent the maximum number of TRs available for sale, planned outage periods should be eliminated from the historical study.
  - b. If the Initial Ideal Quantity is meant to represent the average number of TRs available for sale, a mechanism should be developed to increase the quantity of TRs offered, above the Initial Ideal Quantity, when planned outages are less than the historical average.
3. Review the study period (April 2012 – March 2014) month-to-month and see if there are any patterns/issues during specific months that are irrelevant for future planning. If so, exclude these periods from the analysis.
4. In order of preference:
  - a. Include TR Auction Revenues as a component of the payments received by the IESO for the purposes of determining the Initial Ideal Quantity.
  - b. Develop and communicate a methodology through which surplus funds in the Transmission Rights Clearing Account will be distributed.
  - c. Formally communicate the plan for distributing the surplus funds created in the Transmission Rights Clearing Account to market participants.
5. Delay implementing any revision to the TR policy until a maintenance algorithm can be formally implemented.

To address recommendations 2 & 3 as stated above OPG believes the IESO could calculate a historical “Congested Percentage of Limit” for each TR path, rather than an Initial Ideal Quantity. Where **Congested Percentage of Limit = Sum of Revenue Collected / Sum of (Planned Limit \* ICP)**. This would provide the IESO with a risk factor to apply to the planned intertie limit. This would allow the IESO to

dynamically determine the ST quantity of TRs to make available for each TR path based on the paths planned capability. This would also accomplish the goal of revenue neutrality.

OPG agrees that there may have been issues with past practises in terms on determining TR quantities to be sold at auctions. However that may have been a result of some fundamental issues with factoring impactive outages with TR volumes to be sold at TR auctions. If the intertie limit for the month has been set at a certain level by IESO operations, the IESO should not offer more TRs than what is available on the tie line. OPG recognizes that some outages are forced, and can't be accounted for, but planned outages should be accounted for, whether they are external or internal intertie limitations. There were historical instances within the study period where planned outages that de-rated the intertie were not factored into the amount of TRs sold, or the amount of TRs sold was above the intertie limit.

OPG appreciates the difficulty involved in coming up with a new proposed Transmission Rights Auction plan. However it is our view that it should be done fairly, and with appropriate data. It is important to note that the reduction of TRs in the market will potentially cause a reduction in trader activity to those who aren't able to obtain them. OPG does not believe that the Initial Ideal Quantities (upper TR limit) should be reduced so drastically on some of Ontario's most frequently used interties. OPG recommends that the IESO look at OPG's proposed recommendations, and hopefully develop a more conservative and reasonable way of calculating an upper limit of TRs offered at the auctions.

Regards,

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