

Transmission Rights Market Review (SE-110) Stakeholder Engagement Plan



Schedule VII updated – May 9, 2013

I. Summary

This Stakeholder Engagement Plan launches the review of the current design of the IESO's Transmission Rights (TR) market. The review will be conducted in two phases – Phase one will look at the confidence level of the TR market and its associated stabilization design. The confidence level reflects the degree to which congestion rents collected by the IESO will be sufficient to cover the IESO's payment obligations to TR Holders. The stabilization design introduced in 2004 is intended to arrive at a confidence level established by the Board where the rights would exceed the rents while maintaining an account balance of \$20 million by increasing or decreasing short-term rights available for auction based on the disposition of the TR clearing account. Phase two, expected to begin later in 2013, will initiate a comprehensive review of the design of the TR market to consider whether it is providing the intended benefits and to make recommendations about potential efficiencies or improvements.

TRs are financial instruments that entitle the owner to a settlement amount if congestion on an intertie leads to price differences between the intertie zone and the Ontario zone.

This initiative will be of specific interest to all existing and future market participants who are transmission customers (i.e., loads), participate in the transmission rights market or transact on the interties.

This stakeholder plan defines the opportunities for stakeholder involvement in the analysis of the transmission rights market and any recommended changes.

II. Introduction

When an intertie is congested there is a difference between the spot market prices in Ontario and external zones, and exporters will pay a price to purchase energy from Ontario that exceeds the Ontario price while importers will be paid a price to deliver energy into Ontario that is less than the Ontario price. When this occurs, a surplus is created. This surplus is referred to as congestion rent. TRs are financial instruments that are periodically auctioned by the IESO through a separate financial market and are purchased by market participants to hedge against these intertie congestion costs or as speculative investments. Holders of TRs are entitled to a revenue stream, called a TR Payout, based on the number of rights they hold and the spot market price differences between Ontario and external zones.

The IESO, in response to a request made by the IESO Board of Directors, will be analyzing the current design of the transmission rights market and providing recommended changes, where appropriate.

The review will consist of two phases:

- Phase 1 will review the confidence level and its associated stabilization algorithm design. Recommendations from Phase 1 will be considered interim solutions which may be revised based on the results of Phase 2.
- Phase 2 will consist of a comprehensive review of all other aspects of the transmission rights market. This second phase will take longer – its timing will depend in part on the overall demand on stakeholder time for this and other market-related consultations now underway.

More information on the transmission rights market can be found on the IESO web site:

Transmission Rights Marketplace Training Workbook

<http://www.ieso.ca/imoweb/pubs/training/TRworkbook.pdf>

Market Manual 4.4: Transmission Rights Auction

http://www.ieso.ca/imoweb/pubs/marketOps/mo_TransmissionRights.pdf

Available Transfer Capability Implementation Document

http://www.ieso.ca/imoweb/pubs/ircp/ATCID_MAN-1.pdf

Transmission Reliability Margin Implementation Document

http://www.ieso.ca/imoweb/pubs/ircp/TRMID_MAN-4.pdf

III. Background

Phase 1 - Effective March 2004, following IESO stakeholder engagement, in an effort to maximize trade and increase trading liquidity the IESO Board of Directors agreed to use the surplus in the TR clearing account, above a set threshold of \$10M, to allow an increase in the volume of TRs sold. Any increase in TRs is made via a stabilization algorithm which was intended to balance the TR clearing account and find equilibrium where the number of TRs sold provided for the most efficient market.

From market open to April 2004, when the confidence level¹ changes were implemented, monthly congestion rents collected were in excess of the TR payouts in 15 of the 23 months; however, shortfalls did occur with the net total of TR payouts exceeding congestion rent collected during this period by \$5 million. Since April 2004 the monthly TR Payouts have been, for the most part, greater than congestion rents. When congestion rents are less than the TR Payouts, the revenue from the TR auction and interest in the account are used to fund the TR Payouts. Congestion rent shortfalls have resulted in \$163 million in auction revenues and interest being used to fund the TR Payouts since April 2004. An outcome where TR payouts exceed congestion rent collected is consistent with what the IESO would have expected following the April 2004 changes.

Despite a policy of stabilization the account balance has continued to increase. In December 2006, the TR clearing account balance available for disbursement was approximately \$77 million, and was continuing to grow. At this time the IESO Board approved the disbursement of \$57 million to transmission

¹ The IESO calculates the number of TRs available for auction based on the forecasted capability of each intertie reduced by a 'confidence level'. The confidence level was designed to ensure that the TR market is simultaneously feasible (congestion rents collected are sufficient to cover TR Payment obligations). The confidence level reflects physical conditions, planned and contingent outages and system security.

customers over 9 months between April 2007 and January 2008. At the time of the payout, the reserve threshold was increased to \$20 million. Since then the account has increased to \$72.7 million as of December 31, 2012. In February 2013 a payout of \$42 million was approved, to be paid in 12 equal monthly installments beginning in April 2013.

The confidence level changes implemented in 2004 were intended to stabilize the TR clearing account at the reserve threshold while achieving benefits of increased trade, increased import competition and increased participation/ownership in the TR market. Prior to the stabilization design the TR auction revenues were expected to be distributed to transmission customers to offset transmission service charges. As described above, although the confidence level changes implemented in April 2004 were expected to stabilize the TR clearing account at the reserve threshold level, the account balance has increased over time beyond this threshold. The review will determine if the decrease in the confidence level, and corresponding increase in transmission rights available for auction, has achieved the expected benefits. At the outcome of the review, the IESO will make a recommendation to the IESO Board of Directors in regards to the confidence level and associated stabilization design.

Phase 2 – This Stakeholder Engagement Plan will be updated upon the commencement of Phase 2 – expected later in 2013.

IV. Stakeholders

A review of the transmission rights market will be of interest to all existing and future market participants who are transmission customers (i.e., loads), participate in the transmission rights market or transact on the interties. We encourage all stakeholder sectors with an interest to participate in the process.

V. Goals, Objectives, and Overall Approach

Goal

The goal of Phase 1 of this review is to provide recommendations to the IESO Board with respect to the existing confidence level and associated stabilization algorithm design of the TR market, including the threshold of the TR clearing account. Phase 1 of the review will determine whether the current stabilization design has achieved the expected benefits of increased trade, increased import competition and increased participation/ownership in the TR market.

Objectives

To provide stakeholders with the opportunity to provide feedback on the analysis of the TR market and on any recommended changes.

Approach and Methods

The proposed stakeholder engagement approach includes stakeholder consultation – seeking stakeholder input throughout the decision making process, involving two way dialogues through face-to-face meetings or written feedback.

All materials will be posted on the IESO website. Web-based postings provide all interested stakeholders with an efficient low-cost method to be informed, with the opportunity to communicate their views via e-mail to stakeholder.engagement@ieso.ca. All stakeholder input will be posted on the IESO website.

The implementation of this stakeholder engagement plan will be in accordance with the IESO's approved [stakeholder engagement principles](#). The plan will be subject to review and update as the process evolves and stakeholder comments are incorporated, and as revisions are warranted. The stakeholder engagement plan will be updated upon the commencement of Phase 2 of the review.

A Discussion Paper has been developed to provide an overview of the TR market and provide questions to help lead initial discussions in Phase 1 of the review.

The IESO will be seeking stakeholder feedback on this Plan and the questions raised in the Discussion Paper to support Phase 1 of this initiative. Taking stakeholder feedback into account, the IESO will draft a plan for the analysis to present to stakeholders for further discussion and feedback related to the proposed analysis. At the conclusion of Phase 1, the IESO will present the findings and recommended changes, if warranted, to the IESO Board of Directors. Any changes resulting from Phase 1 may be impacted by the comprehensive review of Phase 2.

VI. IESO Sponsor

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VII. Stakeholder Engagement Schedule

Stakeholder Engagement Schedule		
Activity	Expected Actions	Target Date for Completion
1. Post and Communicate Stakeholder Engagement Plan and Phase 1 Discussion Paper.	Stakeholders to provide written feedback.	April 11, 2013
2. Information Webinar on Discussion Paper if required.		April 29, 2013
3. Deadline for written input from stakeholders.		May 3, 2013
4. Posting of IESO responses and proposed analysis.		May 9, 2013
5. Stakeholder Session to discuss comments, IESO responses and proposed analysis.	Dialogue – presentation to stakeholders	May 16, 2013
6. Deadline for written input from stakeholders.		May 23, 2013
7. Posting of IESO responses and final analysis plan.		May 30, 2013
8. Posting of findings and recommendations.		July 2013
9. Stakeholder Session to discuss findings and recommendations.	Dialogue – presentation to stakeholders	July or August 2013
10. Finalize findings for recommendation to IESO Board of Directors.		September 2013