

Minutes of Meeting

Date held: April 12, 2012	Time held: 1:30 pm	Location held: Delta Chelsea
Invited/Attended	Company Name	Attendance Status (A)ttended; (R)egrets; (S)ubstitute
Bell, Brian	Ontario Power Generation	A
Brandt, Jason	Centre Lane Trading	A
Cormier, Pascal	Brookfield Renewable Energy	A
Dalzell, Pat	Bruce Power	A
Dormer, Paul	TransCanada	A
Gell, Rick	Ontario Power Generation	A
Kwok, Jason	Centre Lane Trading	A
Laurin, Marc-Andre	Brookfield Renewable Energy	A
Martin, Craig	TransCanada	A
McCuaig, Paul	Independent	A
Pelletier, Simon	MAG Energy Solutions	A
Plante, Matthieu	HQ Energy Marketing	A
Plante, Pierre	MAG Energy Solutions	A
Viswanathan, Samira	Bruce Power	A
Wells, Dave	Manitoba Hydro	A
Blair, James	DTE Energy Trading	Via Teleconferencing
Bleiweis, Bruce	DC Energy	Via Teleconferencing
Burnham, Steve	RBC Capital Markets	Via Teleconferencing
Chintapalli, Raj	Customized Energy Solutions	Via Teleconferencing
Eirich, Christopher A	TransAlta	Via Teleconferencing
Hannweber, Troy	TransAlta	Via Teleconferencing
Lorenz, Jamie	Captial Power Corporation	Via Teleconferencing
Mueth, Mark	DTE Energy Trading	Via Teleconferencing
Mullrooney, John	TransAlta	Via Teleconferencing
Simoos, Miguel	LDH Energy	Via Teleconferencing
Stewart, Malcolm	Powerex	Via Teleconferencing
Tremblay, Carl	Citigroup	Via Teleconferencing
Wadsworth, Joe	Vitol Inc.	Via Teleconferencing
Wetzel, Raymond	Constellation	Via Teleconferencing
Tang, Jessica	IESO	A
Devereaux, Dave	IESO	A
Robitaille, Dave	IESO	A
Bull, Tabatha	IESO	A
Finkbeiner, Darren	IESO	A

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Myers, Denise	IESO	A
Thomas, Doug	IESO	A
Doyle, Declan	IESO	A
Scribe: <i>Jessica Tang</i> , Please report any corrections, additions or deletions e-mail to jessica.tang@ieso.ca		

All meeting material is available on the IESO web site at: [Intertie Trading Standing Committee](#)

On April 12, 2012 the IESO held an IJTSC meeting to present MR-00393: Limiting Payments to Exports during Negative Prices and to solicit feedback. Below is a summary of participant comments and IESO responses when provided.

The IESO stated that they have been asked to find opportunities to reduce costs for consumers and that is the premise under which there is a meeting today.

An attendee asked what the time frame would be for the Stakeholding process.

The IESO representative responded that if we are satisfied with Stakeholding, we are aiming for the June Board for approval and July 2012 enforcement. We have not completed the assessment of implementation. We will only enforce once able to implement.

An attendee asked if, in all cases, the settlement price would be set to \$0. For example, if HOEP was positive and a zone is negatively prices, will you set the export to zero (import congested)?

The IESO responded that we would look at the specific case of import congestion.

An attendee stated that the IESO is assuming that all generators are not subject to price below zero but that this is not true. For those generators that are exposed to negative prices, their bidding behaviour reflects low prices.

The IESO responded that they will look at this but that this was the understanding. The IESO representative provided the following example: Let's assume that you are exposed, even with this proposed export treatment, as a ratepayer, you are still better off but maybe not as a generator. Eliminating the payment to exports is still better for the ratepayer.

An attendee stated that nuclear flexibility is precipitating these discussions. Paying the export is a consequence of an inflexible fleet. We are doing so to avoid shutting down a nuclear unit.

The IESO responded that now that we have more flexibility, we need to ask if we should continue to pay. This is the balance we are talking about.

An attendee stated that there is a price tag to this flexibility. They asked if they could see that price.

The IESO responded with an example: let's assume Bruce contracts pay \$100/MWh (just an assumption, the IESO does not know the true value). This is a sunk cost as they are paid this regardless of running. The

moment we pay that generator \$100 to run plus the export a dollar to flow, we have increased the consumer payment by \$1. This could be avoided.

An attendee stated that the memo to TP acknowledges that this change could cause a decrease in exports and a possible increase in nuclear reductions will result in more SBG.

The IESO stated that the memo did not state that this would cause more SBG. The decrease in exports and a relative increase in SBG is something we will need to investigate. It may create more SBG, but we have more flexibility. In our initial analysis, we assumed two nuclear manoeuvres and then a shutdown but we did not take into consideration the additional flexibility that is now available. When we look at export bids, we do not see negative prices. Through our initial analysis, we do not see that exports will change.

An attendee then responded that you cannot look at negative price bids; you have to look at profitability. They continued by stating that directionally, this may make SBG worse and you are looking at a coarser action to fix it. This may cost more. This should be analyzed to make sure we save money. The attendee stated that even though traders do not bid negatively today, they may still choose not to export due to the increased risk. The lack of negative bids is probably due to the risk of price spikes and price uncertainty. You will likely see a large decrease in export quantities. *The IESO concluded by stating that if there are 1000 hours of SBG (and negative prices) and we can manage 900 of those hours with Condenser Steam Discharge Valve (CSDV) flexibility, this prevents 900 hours of additional cost to the ratepayer. If the extra 100 hours resulted in a shut down, but the cost of the shut down cost is less than the overall savings, then we would still proceed. That is the analysis that we are doing.*

Several attendees stated that it appears that the driver behind the IESO making this change is to benefit the loads only. Benefitting one class of participants while harming others is not what the market is for. All impacts to all participants should be evaluated and the outcomes weighed for overall market benefit. Any action that harms any participant is wrong. Ratepayers will be impacted by having to pay more because we are going to spill more water.

The IESO stated that they are here today to understand the implications to the traders and that they are committed to hearing from all sectors.

An attendee stated that the negative prices that are being seen are largely due to the contracts that are out there. Generators are not offering their true costs. The attendee suggested that the IESO concentrate on fixing the contracts.

The IESO stated that they are looking at the contracts but the process is long.

An attendee stated that this proposed policy makes it difficult to hedge risk.

The IESO stated that they accept that statement and that the exporters that cannot hedge risk may disappear.

The attendee stated that it isn't the value of the payout but the valuation to bid on TRs. MPs that have purchased TRs did so when the value to them was based on assumptions and that value may now be lost.

The IESO responded that if the tie that you purchased a TR on does not congest as much due to a reduction in exports, the IESO agrees that the value of your TR would be reduced.

An attendee asked if as an exporter, IESO pays \$0 and the traders pay \$30 in congestion, so the net export cost would be \$30.

The IESO responded that no, for an exporter in this example, instead of getting paid \$30, you get out for \$0. There would be no separate congestion payment as that is part of the zonal clearing price.

An attendee asked how the zonal price is determined in that example.

The IESO stated that the Zonal Clearing Price is Real time price settlement MCP (-\$40) + ICP (\$10). The ZCP would be -\$30. This rule proposes that when the solution of the equation is negative, we will change the ZCP to \$0 for the settlement of that transaction.

An attendee stated that this will change behavior because exporters will have to rethink their strategy to get out to ensure that they can cover the congestion costs. TRs are meant to connect HOEP to interties and this is getting more disconnected.

Another attendee stated that CES contracts are exposed to negative prices.

The IESO stated that CES participants are protected with real-time and day-ahead guarantees that keep them whole during negative prices. It is true that they are exposed if running without a guarantee, but during these hours, we do not expect nor are we seeing these units online without a guarantee.

An attendee stated that the IESO needs to quantify the real impact on uplift based on changes to behaviour and impact to overall market efficiency (the real net benefit to everyone) and efficient dispatch of generation. The attendee asked if the IESO has quantified if there would be more or less or the same SBG. If more, one would expect that it would offset the good. The value of TRs would diminish as there is no longer negative pricing. Those that hold positions and are exposed to negative prices and unable to remove without congestion so cannot hedge.

The IESO stated that the ultimate question that was posed to the economics group is to see what the efficiency changes will be. That analysis is not complete. If efficiency is diminished, it will have impacts to all participants, including consumers. The IESO clarified that they are not changing the market clearing price or the intertie congestion price, just the price used to settle each transaction.

An attendee stated that when price is negative, uplifts will go up by reducing costs to consumer so we can export power. When MCP is around -128, uplift averages -\$2 so exports are getting paid the \$2. It is cheaper to pay the uplifts than duck units down. If these generators offered closer to cost, then the price would be more reflective and you won't have to pay exporters.

The attendee was asked to provide further information on this issue.

An attendee asked if the IESO was looking at all zonal prices or just when HOEP is negative. The attendee suggested the IESO split up times when HOEP is negative so comparing apples and apples.

If there is import congestion and the zonal price is negative, but HOEP is positive, the exports should not be treated the same.

The IESO stated that they would take this point back.

An attendee noted that the IESO is looking at a value of \$17 million paid to exporters in 2011. This is not a material number when you compare it to a \$15 billion market.

The IESO responded that while it may seem immaterial, they are looking at all 'unnecessary' costs to the consumer.

An attendee stated that the IESO is saying that there is not much wind that is dispatchable right now but you can always force the generator off for reliability. They then asked what are you referring to when you say reliability?

The IESO stated that they are realizing that the FiT contracts want to be dispatched but it cannot be done today. They are another subset of generators that are exposed to negative price. Even with their contract buffer, it is still a lost opportunity.

An attendee stated that this change may now give linked wheels priority over exports or implied wheels. A linked wheel comes through with immunity while an Ontario generator who is exposed to price that could hedge by exporting is now a second class citizen.

The IESO stated that if this change deters exports, than we will be favouring wheels. Today, other than the risk of congestion, not sure how much their treatment will change because they are currently getting out at zero. We will need to give this more thought.

An attendee asked if the IESO considered the regulatory risk.

The IESO stated that they have begun an assessment of regulatory risk and will have it complete it we make any proposals.

An attendee stated that PJM recently removed a negative bid floor and ISO New England is also moving to negative pricing. They asked why the IESO is moving in the opposite direction.

The IESO responded that we will investigate those markets and will respond.

An attendee asked that in the northwest zone, where there is significant local congestion, is it not beneficial to pay exports to leave? It would be cheaper than reducing a bottled NW asset.

The IESO stated that, regardless of the area, if the result is the export being paid and the generator being compensated through their contract, which will add to global adjustment, this is additional cost to the consumer.

An attendee asked if this change would affect the Net Interchange Scheduling Limit.

The IESO stated that, theoretically, NISL does not affect price unless it is binding and the intertie is congested.

An attendee asked if the IESO has looked at non-SBG hours that this may impact. For example, if you take a nuclear unit off and need him again later but he isn't available – you might see higher prices in those hours. This may cause price spikes.

The IESO stated that they are not sure if this scenario is being looked at. If the discussions are about over-curtailing, there are changes in price dynamics on both sides, which can impact ratepayers.

An attendee stated there was a Sunday where the Ontario market over forecasted load and resulted in -\$128/MWh prices. They then asked if the IESO would quantify the impact of over forecasting to the point where it wouldn't be worth it to do the rule. In this case, without the exports, the price would have stayed negative for longer.

The IESO stated that exporters in fact do help. If these exporters do not show up, we will see more negative prices. We acknowledge this and it is part of the efficiency analysis we are looking at.

An attendee asked if the IESO is going to look at reduced exports and increased SBG. They stated that at some point CSDV flexibility will be exhausted and one would assume you would have to go to wind curtailments. Would this be something you look at?

The IESO stated that if the exports decrease causing an increase in SBG the likelihood of wind dispatch could increase. It is a measure of flexibility on the system.

An attendee asked if the increased flexibility from the nuclear fleet was a result of a regulatory change or some obligation to meet something.

The IESO stated that they cannot say what or how the change was created as it is not our position. This is not a regulatory change from the IESO. We cannot speak to anything else.

An attendee asked if the IESO put a value to this flexibility.

The IESO stated that they did not put a value to it.

An attendee stated that all of the IESO's currency is about net savings to rate payer. What if there are costs that the IESO is unaware of? There are hidden contracts that have costs.

The IESO stated that they are currently aware of the costs that we can see i.e. TR market and OPA contracts.

The IESO stated that they welcome all information on any other contracts you may have.

An attendee stated that in the past decisions were made based on market efficiency gains. This is a change because we are focusing on one side. The attendee stated that the IESO should develop a strawman on hybrid market impacts.

The IESO stated that a strawman is something that the IESO board will need to decide on. There can be a solution that sees huge efficiency gains that may have a cost to consumers but the efficiency gains are so high that it is worth doing.

An attendee stated that this proposal is unique because it came in as a proposal before the evaluation happened. The attendee said that the IESO is posing a solution without knowing there is a problem. This is a difficult change because of OPA contracts. It is difficult to review because OPA

contracts are not public. The IESO needs to look at materiality and benefits. \$1 is not enough of a benefit.

The IESO responded that they are here today to gather information and to determine if the proposal warrants consideration. The IESO said they will take back comments and do the assessment. The IESO may say that everything they heard today makes sense and they are done and will not move forward with the proposal.

An attendee stated that this meeting would be easier if those impacts were already done.

The IESO stated that they could not do the assessment without their input.

An attendee asked if the IESO has looked at developing new products with neighbouring jurisdictions.

The IESO stated they had but these types of changes do not happen overnight. The IESO added that they are also looking at other tools.

An attendee asked if the IESO has looked at this in a more global nature and saying that the concepts of the entire market there are times when there are additional costs and sometimes there are benefits. Has the IESO looked at a different floor price?

The IESO stated that they have not looked at something other than 0 and asked how some other number other than 0 would be established. Other decisions the IESO has made were based on efficiency not a rate payer cost. Any number other than 0 goes to global adjustment so something other than 0 is a cost.

An attendee stated that it doesn't matter what the floor price is, the exporters will be scared because there is still risk. There will be a drastic reduction in exports.

Another attendee asked if there is there any consideration to the long term energy future of the Ontario market. The floor price may help in the short term but it may hurt in the long term by mixing in the market. *The IESO stated that people are not investing in Ontario because of the energy price and it is more due to the energy contracts with the OPA.*

The attendee stated that they want an efficient market. Without one, who will want to invest? We can't rely on OPA contracts forever.

The IESO replied there is a long way to go. There are things that Ontario does not have, like a capacity or a day-ahead market.

An attendee stated that there may be other opportunities from forums like SE-91 that is supposed to go live in fall 2013. There may be another solution.

The IESO stated that not everything for SE-91 goes live in 2013. Centralized forecasting has already begun. We will be implementing the changes as they come. There may be another solution but we must consider if it is timely.