

Stakeholder Feedback and IESO Response

Transmission Right Market Review – July 22 webinar

Following the July 22 Transmission Rights Market Review stakeholder engagement webinar, the IESO invited stakeholders to provide comments and feedback on the materials presented during the webinar by August 13 ,2020.

The IESO received written feedback submissions from:

- Association of Power Producers of Ontario (APPrO)
- Bruce Power
- Capital Power
- Ontario Power Generation (OPG)
- TransAlta

The presentation materials and stakeholder feedback submissions have been posted on the IESO stakeholder [engagement webpage](#) for this engagement.

Note on Feedback Summary

The IESO appreciates the feedback received from stakeholders on this initiative. The table below provides a summary of the feedback received and an IESO response to that feedback.

Stakeholder feedback and IESO responses

Question

Are there any critical components missing from the Stage 1 assessment and key findings?

Stakeholder

General

Feedback

Stakeholders have indicated broad agreement with the Stage 1 assessment and key findings.

IESO Response

Thank you for this finding.

Stakeholder

TransAlta

Feedback

One area that has not been assessed is the quantity of TRs sold relative to the historical ATC. Some of the major interfaces, most notably with NYISO, appear significantly under sold historically. This is an area that could use more analysis and investigation.

IESO Response

Some interfaces may appear undersold due to operational constraints. Based on recent operational experience, IESO may act pre-emptively by reducing offered TRs to mitigate the risk of overselling on a path. This is in line with the Market Manual 4.4, Section 2.2.4 and 2.2.5 for determining transmission rights to offer. Historically, the IESO has always implemented this criteria consistently as it has allowed the IESO to limit or potentially avoid overselling TRs on any path. Moreover, for clarity the IESO identifies "operational constraints" as a reason in the Notes column of the Pre-Auction report for paths where this is applicable. The IESO also assesses the need for these operational constraints on each applicable path as a part of its quarterly review of the Transmission Rights Auction.

As part of Stage 2 of the TR market review, the IESO is undertaking a comprehensive assessment of the methodology that the IESO applies to determine the number of TRs to sell in each auction. This particular scenario on the NY tie is included in the methodology assessment. In the upcoming stakeholder engagement session, the IESO will present the assessment results to stakeholders for feedback and work with stakeholders to develop proposed changes, if required.

Question

Are there additional comments on the revised objective statement?

Stakeholder

OPG

Feedback

OPG would like clarification as to what constitutes 'efficiency' in the objective statement for the Transmission Market. OPG believes the reference to 'efficiency' in the proposed TR Market Review objective statement is inconsistent with the MRP principle of 'efficiency'. OPG recommends that the objective statement should be stated to provide benefits to consumers, producers and traders that would lead to efficiencies and improvements in the market, and an overall long-term benefit to consumers.

IESO Response

With respect to the TR Market and the proposed objective statements, the efficiency of intertie trade is achieved when the interties are utilized in a way that maximizes the net benefits attained through their use. The IESO believes that the efficiency of intertie trade benefits the Ontario market as a whole in the long-term by promoting price convergence and providing better price signals for short-term operations and long-term investment decisions.

The IESO's proposed addition of the wording "maximize the gains from electricity trade" to the objective statement, was intended to capture the interests of all key stakeholders including consumers, traders, generators, transmitters, loads, etc.

Stakeholder

Capital Power

Feedback

The revised objective statement being proposed notes that the TR market should, among other things, "[p]rovide net benefits to Ontario ratepayers in the long term." Capital Power is supportive of this as an objective but recommends that the statement be expanded (or an objective be added) to include bringing net value to key stakeholders that stand to be directly impacted by TR market changes. As such, Capital Power suggests adding the language below to statement #2.

"Provide net benefits to Ontario ratepayers and enhance the value of intertie participation in the long term."

IESO Response

The IESO's proposed addition of the wording "maximize the gains from electricity trade" to the objective statement, was intended to capture the interests of all key stakeholders including consumers, traders, generators, transmitters, loads, etc.

Question

Are there other options that should be explored in Stage 2?

Stakeholder

OPG

Feedback

The IESO should consider exploring the option of requiring traders to have a 'Physical Export License' and post a minimum collateral requirement in order to participate in the market. This could provide insurance and transparency to traders which will lead to more efficiency on the interties. It is OPG's view that in order to maximize MW flows at the interties physical traders need insurance for congestion risk. When financial traders enter the TR auction and purchase on a speculative basis, physical players are left with less insurance. Without the TRs physical traders are forced to manage risk with smaller positions that is counter to the "efficient" use of interties. OPG acknowledges that requiring a Physical Export License may potentially reduce competition, but that may be mitigated with the option of allowing a secondary market for TRs, or providing traders with a larger variety of TR products to help increase competition.

IESO Response

At the May 2020 stakeholder engagement session, the IESO presented data which suggests that financial participants play an important role in providing liquidity and competition contributing to the generation of efficient TR clearing prices and supporting maximized auction revenues for the benefit of Ontario consumers.

Since the Ontario market opening in 2002, financial traders have been authorized, according to requirements outlined in the Market Rules, to participate in the Ontario TR market. It is the IESO's view that adding a requirement of "Physical Export License" will present barriers to financial trader participation, which has been demonstrated to provide value to the TR market in the ways noted above.

Question

Are there other considerations that should be included for the proposed evaluation criteria, process and timeline for Stage 2?

Stakeholder

OPG

Feedback

The information presented in the July 22 presentation recognized Financial traders existed and could have a negative impact on physical trader's ability to complete hedged physical flow. However, it also indicates that a larger number of participants (including financial traders) in an auction increases the competitiveness, raising the MCP and therefore the TR revenues for the IESO. The IESO should evaluate which of these objectives results in the greater net benefit to the consumer and/or which of these is more important for achieving the overall "efficiency" desired.

IESO Response

At the May 2020 stakeholder engagement session, the IESO presented data which suggests that financial participants play an important role in providing liquidity and competition contributing to the generation of efficient TR clearing prices and supporting maximized auction revenues for the benefit of Ontario consumers.

Since the Ontario market opening in 2002, financial traders have been authorized, according to requirements outlined in the Market Rules, to participate in the Ontario TR market. It is the IESO's view that adding a requirement of "Physical Export License" will present barriers to financial trader participation, which has been demonstrated to provide value to the TR market in the ways noted above.

Stakeholder

TransAlta

Feedback

TransAlta recommends that if an option cannot be implemented within the timelines for the project that it be considered for future implementation outside the current review process.

IESO Response

The final deliverable of the TR Market Review is a report that will document a proposed set of near-term and long-term changes that could enhance the efficiency, function and value of the TR market and to bring the TR market into alignment with the energy market changes being proposed under the Market Renewal Program.

Implementation of any proposed changes is outside the scope of this stakeholder engagement as all potential projects and their associated benefits case must be reviewed internally and evaluated against other competing projects before being approved.

Information on next steps and how to continue to receive updates on the status of these proposals will be provided at the conclusion of this engagement.

Stakeholder

Capital Power

Feedback

Capital Power recommends adding a criterion that considers to what extent options facilitate or hinder TR market competition and any trade-offs that may need to be considered.

IESO Response

The IESO believes that the impact of proposed options on TR market competition and any trade-offs that may need to be considered can be assessed under the evaluation criterion of “benefits”.

Question

Are there concerns with the IESO proposal to conduct focused discussions with interested stakeholders to explore Stage 2 options in detail?

Stakeholder

General

Feedback

Aside, from the considerations noted by Capital Power below, stakeholders did not have concerns with this proposal.

IESO Response

The IESO looks forward to these focused discussions with stakeholders.

Stakeholder

Capital Power

Feedback

Capital Power has no concerns at this time with conducting focused discussions so long as the IESO: i) allows open participation to those interested; ii) provides discussion material in a timely and transparent manner; and iii) reports the findings of these discussions while respecting any information that may be commercially sensitive.

IESO Response

Thank you for this feedback. The IESO’s plans for these focused discussions incorporated each of the considerations noted.

Question

Market Renewal Program (MRP)

Stakeholder

OPG

Feedback

Please provide additional details and clarity on how the IESO plans on integrating this TR Review/Improvement process with the Market Renewal Project (MRP). If the plan for Stage 3 is to implement longer term improvements it would be worthwhile to ensure they can be incorporated in the new market design. Stage 3 will require significant resources for modelling and analysis to interpret how the Transmission Rights Auction will work in the renewed energy market, therefore it would be beneficial for the IESO to consider including the proposed TR design changes as part of the final MRP design.

IESO Response

The proposed changes to the TR Market that result from discussions with stakeholders through this engagement will not be explicitly included in the MRP detailed design because they do not impact the design changes being considered. However, MRP detailed design changes will need to be considered in the discussion of changes to the TR Market through this engagement. During Stage 3 of the TR market review, the IESO will discuss these changes with stakeholders to ensure alignment between the two initiatives.

Stakeholder

APPrO

Feedback

The TR Market Review work should be integrated into the final MRP detailed design to ensure consistency and the proper functioning of both markets going forward.

IESO Response

The proposed changes to the TR Market that result from discussions with stakeholders through this engagement will not be explicitly included in the MRP detailed design because they do not impact the design changes being considered. However, MRP detailed design changes will need to be considered in the discussion of changes to the TR Market through this engagement. During Stage 3 of the TR market review, the IESO will discuss these changes with stakeholders to ensure alignment between the two initiatives.

Question

General

Stakeholder

APPrO

Feedback

Hydro One Network's Export Transmission Service rate (ETS) is an important component of trading activity. We recommend that as the IESO considers the TR Market Review, that it also consider coordinating with stakeholders and the transmitter on studies arising from a recent OEB Decision on H1's Application for Transmission Revenue Requirement for 2020-2022 (EG-2019-0082) regarding cost allocation methodology that includes the allocation of shared network costs to exporters, and an update ETS jurisdictional review that provides the rates in other jurisdictions and rationale behind those rates and market implications.

IESO Response

Thank you for this feedback. The IESO will work with Hydro One and stakeholders to understand how ETS rate considerations should be included in this engagement.

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