

Transmission Rights Clearing Account (TRCA)

Disbursement Methodology Review – Meeting Notes – January 21, 2020

Transmission Rights Clearing Account Review

Jason Kwok, IESO, provided stakeholders at the MDAG with a presentation on the Transmission Rights Clearing Account (TRCA) Review. This included providing responses to stakeholder feedback received from the December 4th MDAG meetings as well as going through analysis on the impact of the implementing the change to the TRCA methodology. In response to stakeholder feedback, the IESO has decided to delay the effective date of the proposed TRCA Market Rule amendments from the May 2020 disbursement to the November 2020 disbursement.

- A stakeholder asked if they are buying long-term transmission rights, are they not also paying towards the long-term transmission costs?
 - *No – the revenues from the sale of long-term transmission rights do not go towards long-term transmission costs. These funds are collected in the TRCA account and used to offset TR payouts. Any remaining funds are disbursed to loads and exporters based on their respective demand shares.*
- An MDAG member asked if the TR holder should be receiving surplus if they are viewed as buying something that is a long-term right.
 - *In Ontario, obligations from transmission rights are fully met through this account regardless of the funding status of the TRCA. Any surplus that remains after TR holders are paid is then allocated to exporters and load. Consistent with the Brattle report, the IESO does not believe TR holders are entitled to any of the surplus funds.*
- An MDAG member commented that it is unclear what principles are behind this proposed change.
 - *The IESO believes that Ontario load should receive the TRCA surplus funds because they are ultimately responsible for the long-term costs of the transmission system. Transmission Rights buyers are purchasing insurance against intertie congestion and do not contribute to the long-term costs of the transmission system.*
- An MDAG member asked, as part of the TR Market review, if there was a different structure for the TRs, for example that TRs are not necessarily backstopped the same way, would that require reviewing how the surplus of the TRCA is disbursed again?

- *Discussion on whether transmission rights holders should be made whole to their position can be had when the TR Review is initiated. However, the TRCA Review will determine a methodology that is aligned with the current and future market design and the TR Review will not be revisiting the TRCA disbursement methodology.*
- A stakeholder commented that they did not agree with the IESO's statement that TR holders are held whole and don't hold any risk. The payout of the TR is dependent on real-time market conditions, and so, if a trader buys a TR a year in advance, and there is no real-time opportunity that presents itself, then the trader is out of the auction premium.
 - *The IESO acknowledges that traders must manage a number of risks. The purpose of the TR is only to hedge its holder against intertie congestion pricing (ICP) risk. The TR is not intended to hedge its buyer against other types of market risk.*
- An MDAG member asked if you could make the argument, if an exporter plans to back up their TR with a physical export for every hour of the TR then it could be similar to purchasing long-term physical transmission?
 - *Purchasing a transmission right does not obligate a participant to flow energy in real-time. While the participant may intend on flowing every hour for a future period when purchasing a TR, there is no obligation to pay for transmission regardless of whether it is being used. Also, traders are still submitting hourly export bids in the market and have the right to change their mind and not flow at any time. The IESO also does not plan for exports as firm load.*
- An MDAG member commented that they believe the rules are such that all loads pay for any unfunded TRs, which means that an export would also pay for that. If exports don't receive any of the surplus disbursement, they should not be exposed to the risk of having to pay for any underfunding.
 - *There are safe-guards in place to prevent the TRCA from being in an underfunding position. There is the \$20 million threshold above which you can have a disbursement. The IESO also manages the amount of TRs being sold on a tie-by-tie basis to ensure revenue neutrality. If the TRCA account does not have enough money to pay rights-holders, the Market Rules allow the IESO to borrow funds on a short-term basis. However, the IESO acknowledges that there would still be a risk that exporters could be charged for TRCA deficits and the comment will be taken back to be considered more thoroughly.*
- An MDAG member commented that they appreciated the analysis presented as it is helpful for discussion purposes. The outstanding question is how the proposed change will impact the size of the TRCA. There is a concern that the new disbursement methodology is not creating gains but potential inefficiencies.
 - *The change in the quantity of congestion rent collected depends on the impact to trader behaviour. If traders fully account for the TRCA disbursement in their export bid prices, then congestion rent would be reduced by that amount. If traders do no account for the TRCA disbursement in their export bids, then there should be no impact to the congestion rent collected.*

- A stakeholder asked how the proportion of TR holders who own TRs and do not trade in the energy market (speculators) have an impact on the assumed ~\$1/MW decrease in the Intertie Congestion Price (ICP).
 - *The ICP should be driven by physical market opportunities and competition. In a competitive market, the proportion of speculators to hedgers in the TR market should not impact the ICP in the energy market and should therefore not impact the \$1/MWh decrease as studied in the IESO's impact analysis.*
- An MDAG member made the comment that traders might already be considering the changes to the disbursement methodology in their trading decisions. The short-term TRs valid for the month of February 2020 on a particular tie cleared at a much lower price than in the past. The member continued on to state if this change in behaviour is occurring, then there is a shift in equilibrium of the market. The market is now required to re-adjust and rebalance because of the changes to be implemented. Finally, the member commented that the IESO should place market fidelity as a higher priority during this time as there is already market efficiency and the change to the disbursement methodology may not benefit the load.
 - *The IESO thanked the MDAG member for their comments and observations on the value of the TRs that were recently purchased and that the market might be responding to the changes to be implemented. When the IESO announces changes, the impact on the future market is always a consideration.*

Correction:

In the previous meeting notes, the IESO responded to a stakeholder question on the proportion of TR holders who are speculators, these are market participants who have bought TRs and do not trade in the energy market. The IESO initially responded that the proportion of TR holders who are speculators is 50% for short-term TRs and 35% for long-term TRs. The IESO reviewed the data and would like to make correction: the proportion of TR holders who are speculators is 11% for short-term TRs and 17% for long-term TRs.