MRP Energy

Detailed Design Engagement

Design Section: Negative Pricing

Meeting Summary

Background

The IESO hosted a technical session on the Negative Pricing section of the Energy detailed design within the Market Renewal Program (MRP) on February 13, 2020 in downtown Toronto (IESO Offices) from 10 a.m. to 12 p.m.

The focus of the discussion was a proposal that included a settlement floor and an import offer floor as a part of the renewed Energy market. Required reading material on these design topics was shared two weeks in advance to support the discussion on February 13.

The purpose of the in-person session was to answer stakeholder questions and understand their perspectives on the design based on the reading material provided in advance. Stakeholder perspectives will help to inform the upcoming release of the draft detailed design section. The design section when fully released will be open to additional engagement, feedback and discussion with stakeholders.

Attendance

The following organizations participated in the session:

Bruce Power	Ontario Power Generation
Capital Power	Ontario Waterpower Association
Enel X	Power Advisory
H20 Power	Rodan Energy Solutions
McCarthy Tetrault	TC Energy
Northland Power	TransAlta
Ontario Energy Association	Workbench

Discussion Topics:

Overall, the discussion with stakeholders focussed on the rationale, necessity and impact of a settlement floor. The following themes emerged from stakeholder questions and comments during the session:

- Stakeholders were unclear what problem the settlement floor was intended to address, to then begin a more structured review of the possible options to address a problem like ineffective market pricing.
- Stakeholders also asked if this would be an enduring part of the market, or if it would be subject to change, if the generation mix changes.
- There was a discussion about the role of the existing offer floors for specific generation types, and how they would continue in the renewed market.
- Stakeholders asked about the possibility of a settlement floor inefficiently affecting bidding behaviour and strategy, and if there was additional analysis on the frequency and depth of these types of events. Further, stakeholders were interested if there would be an impact on make- whole payments, or payments to regulated resources.
- Stakeholders understood and discussed the concept of a settlement floor, and questioned if there was a reference price more reflective of the cost of spilled water.
- Stakeholders also discussed whether a settlement price of -$20/MWh would provide strong enough of a signal to the market to elicit a response to oversupplied conditions.
- The discussion questioned the potential impact on surplus baseload generation events, and on the impact on import/export transactions if the floor was set too high.

Next Steps:

The feedback and discussion with stakeholders at these sessions will be used by the IESO to review the settlement floor and import offer floor proposals. The IESO will update stakeholders on any revisions to its proposals through a future stakeholder engagement session. Upon finalization of the proposal the IESO will include the necessary information into the calculation engine detailed design sections. Those documents will be available for stakeholder comment in the upcoming months.

March 3, 2020

IESO Stakeholder Engagement

Submitted via email

Re: AMPCO Submission – Negative Pricing in Market Renewal

AMPCO is the voice of industrial power users in Ontario. Our goal is industrial electricity rates that are competitive and fair.

Attached is AMPCO's submission made in response to the call for input as part of the stakeholder engagement dealing with "Negative Pricing". The specific date of the stakeholder session at which feedback was requested was February 13, 2020.

AMPCO appreciates the opportunity to provide such a submission, and looks forward to continuing the dialogue.

Best Regards,

[Original signed by]

Colin Anderson President.

Negative Pricing:

Submissions of the Association of Major Power Consumers in Ontario (AMPCO)

INTRODUCTION

AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that affect their bottom line.

These submissions are made in response to the call for feedback issued by the IESO at its February 13, 2020 stakeholder session (Negative Pricing). AMPCO's members are major power consumers, responsible for over 15 TWh of annual load in the province. A reliable and affordable energy supply is critical to the success of their businesses, which is why AMPCO has an interest in these discussions.

AMPCO was unable to attend the stakeholder session on February 13 due to a scheduling conflict. AMPCO appreciates the opportunity to provide this after-the-fact feedback and looks forward to continued discussions on this topic.

SUMMARY

AMPCO does not support the creation of a -$20/MWh settlement floor.

AMPCO believes that this is an unusual approach that has the potential to create collateral damage in addressing the problem. There may be other means by which to solve the issue that the IESO is concerned about, and those options should be further explored prior to making any changes.

SPECIFIC COMMENTS

AMPCO's understanding of the problem that is being addressed with the -$20/MWh settlement floor proposal is that it has to do with hydroelectric generation (particularly in the NW area of the province) that must run at certain times of the year due to high water conditions and little or no ability to store that water. In those situations, the water must either be passed through the turbines (generating) or passed around the station (spilled). Obviously, spilling water at hydroelectric stations is something that should be avoided if possible, so AMPCO is prepared to take it as a given that, in such circumstances, the stations must generate.

The IESO has gone to great lengths over the past couple of years to promote market dynamics as the appropriate path forward. The settlement floor proposal appears at odds with that. Countless hours have been spent debating long and short run marginal

price signals – with AMPCO's perspectives being well documented in its numerous submissions in 2018 dealing with Load Pricing. The current proposal does not appear consistent with the previous IESO position, and AMPCO finds this unusual.

In its pre-reading material for the February 13 stakeholder session, the IESO indicates that "[a] settlement floor applied equally to all market participants – both suppliers and consumers - promotes market efficiency by providing appropriate settlement outcomes for all market participants…"[1] AMPCO takes issue with this statement on "efficiency". If the market (both suppliers and consumers) offer and bid as they choose, then the corresponding equilibrium price should not be regarded as inefficient, regardless of its quantum. AMPCO understands that the quantum of the -$20/MWh was chosen simply to push the floor below existing offer floors. Regardless of whether the floor is set at -$20 or -$50 or -$100, the principled issue remains; is a settlement floor appropriate? AMPCO expects that this proposed change is driven more by the desire for "appropriate settlement outcomes" than it is by efficiency. And if it truly is driven by a desire for "appropriate settlement outcomes", then AMPCO looks forward to the future introduction of the settlement ceiling, presumably to be set at +$20/MWh.

By employing a solution that sets any settlement floor, AMPCO feels that the potential for unintended consequences becomes large. For example, exporters in the province would be negatively impacted by this decision. Additionally, energy storage would likely have strong opinions on this issue as well. Neither of these entities is the focus of the problem. The problem lies with hydroelectric generators and their need to run.

In returning to the actual problem, it appears to AMPCO that this is not a settlement issue at all, but rather an operational one. As such, AMPCO feels that there may be other solutions that should be explored before deciding to implement a settlement floor. For example, gas-fired generators have certain technical limitations on their ability to operate. As a result, there have been certain rules put in place that set out minimum run times and loads out of respect for the technical limitations of the equipment. Similarly, there are other limitations such as required heat soaks to allow for appropriate differential expansion of equipment. The existing market rules respect generator technical issues by allowing a generator to ignore dispatch signals for reasons of safety, equipment damage or applicable law (SEAL). All of these issues in regards to limitations are real and need to be (and have been) respected. The need

[1] Section 4.1, page 6

to flow water through a hydroelectric station that has no storage capacity is no different and should not rely on a settlement floor to resolve the operational issue.

AMPCO understands the need to resolve this operational issue and supports the IESO in reviewing it. AMPCO strongly supports the need for additional dialogue to explore other means by which to alleviate this problem.