



April 4, 2003

**E-MAILED (Hard Copy to Follow)**

Independent Electricity Market Operator  
Attention: Market Assessment and Compliance Division  
655 Bay Street, Suite 410  
Toronto, ON  
M5G 2K4

**Re: EPCOR's Comments on Congestion Management Settlement Credits in the IMO-Administered Market – Market Surveillance Panel Consultation**

Thank you for affording EPCOR Utilities Inc. (EPCOR) with the opportunity to provide input regarding Congestion Management Settlement Credits (CMSC) as outlined in the discussion paper provided by the Market Surveillance Panel (MSP). EPCOR appreciates the consideration and diligence that the MSP is applying in its role to ensure the Ontario wholesale market is efficient. EPCOR, through its subsidiaries EPCOR Merchant and Capital L.P., Union Energy Inc. and EPCOR Power Development Corporation, has significant existing and prospective interests in the Ontario electricity market. EPCOR supports the Government's view that reform of the electricity generation market, and not short term price mitigation, should be the principal objective of the evolution of the market.

As noted in the discussion paper, uniform pricing and the associated congestion management payments were introduced in the IMO market design as an alternative to locational marginal pricing (LMP), necessitated by the decision to use uniform energy pricing across the market territory. Thus CMSC, which are generated automatically by the differences between the unconstrained and constrained schedules and may be affected by the offers of market participants who receive CMSC, are a proxy for the economic signals that would be provided by LMP. EPCOR suggests that a further aspect of this review of CMSC which merits consideration is whether CMSC is effective as a proxy for LMP in terms of CMSC's ability to provide reliable, accurate and timely economic signals.

Competitive energy markets depend upon investments by market participants to ensure reliability and provide efficient allocation of resources. Such investment decisions depend upon political and regulatory stability plus an assessment of market conditions based on publicly available market data that is not subject to manipulation by market participants. EPCOR believes that a necessary condition for a robust competitive market is the availability of accurate, reliable market data, particularly prices, in a timely manner that facilitate rational

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economic decisions. This is particularly important with regard to decisions regarding long term capital investments such as generation and transmission investments.

In its current form, CMSC payments are paid by all loads to individual market participants in response to system issues and reliability needs. Such payments are only known to the market on an aggregated basis. The amounts and locations that receive these payments are not available to the market for reasons of commercial confidentiality. Such confidentiality is appropriate however the result is that there are no reliable economic signals publicly available regarding the value of transmission and generation investment on a locational basis. The only parties to whom CMSC provides any information regarding the need for and value of incremental transmission and generation investments are those parties that receive the CMSC payments and this information only pertains to their individual facilities. Given these payments are not transparent to the market and are potentially subject to manipulation by market participants, in EPCOR's opinion, CMSC are not an efficient proxy for LMP and have no value in terms of providing economic signals to the market regarding transmission and generation investment planning. Indeed, CMSC are counter-productive to efficient resource allocation as they potentially provide payments for investment decisions that do not improve reliability or efficient allocation of resources.

In EPCOR's opinion, there is neither the mechanism or the market data available in the Ontario market to support efficient location-based investment decisions. The IMO is undertaking a review of LMP with the possibility of introducing LMP in the Ontario market. The introduction of LMP would provide a transparent reliable mechanism to provide economic signals to the market both for transmission and generation investment planning. Such a mechanism would also provide comparable information to neighbouring jurisdictions, notably NYISO, ISO New England and PJM Interconnections. This is important because investment decisions for generation will be considered on the basis of the preferred location amongst these markets. Provision of adequate market data until LMP is fully implemented could be partly addressed through improvements in the publication of the "shadow" LMP related to the nodes of Ontario's transmission system. EPCOR does not find the current publication of LMP to be useful for investment planning as the methodology and application of the methodology to create the existing "shadow" nodal prices is not known. EPCOR recommends that a necessary first step in creating the necessary market data is an improvement in the existing "shadow" prices through provision of:

- the methodology for generating these prices
- what do the energy prices represent
- how are losses and congestion amounts calculated
- a full description of all the nodes - where are they, what are they, etc.

EPCOR also recommends that these improvements to the "shadow" prices and the market's understanding of these prices are necessary to support the IMO's review of LMP and to achieve support for the recommendations of this review by market participants. EPCOR would be willing to participate in venues, such as the working groups initiated by the IMO for the Day Ahead

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Market and Long Term Resource Adequacy projects, to support and provide recommendations to the IMO in its review of LMP. EPCOR notes that decisions regarding implementation of LMP in Ontario will have significant impacts on other aspects of the IMO's Market Evolution Program, particularly the Day Ahead Market and Long Term Resource Adequacy projects. It would be timely and effective to review LMP with the involvement of market participants in parallel with these other projects.

Thank you for your consideration.

Regards,

Graham Henderson  
Director – Ontario Regulatory Affairs  
EPCOR Utilities Inc.

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