

Ontario Market Surveillance Panel

Review of Congestion Management Settlement Credits in the IMO-Administered Electricity Market

Comments of TransCanada PipeLines Limited

March 31, 2003

Introduction

The Market Surveillance Panel (“MSP”) of the IMO Board issued a Discussion Paper in February 2003 that focused on issues related to constrained off payments to generators and imports in the IMO-administered electricity market. TransCanada PipeLines Limited. (“TransCanada”) is an active participant in the Ontario wholesale market through our ownership interest in the Bruce Power Limited Partnership and approximately ninety megawatts of consumption for our pipeline facilities throughout the province. TransCanada also owns a 35% interest in the TransCanada Power Limited Partnership which owns five Non-Utility Generators (NUG) with a combined output of approximately 200 megawatts. In addition, through our wholly owned subsidiary, TransCanada Energy Ltd., the Ontario Energy Board licenses us as a generator, wholesaler and retailer. As an active market participant with substantial interests in the effective functioning of the markets, TransCanada will be directly affected by the outcome of any changes in the payment to constrained off resources and; therefore, appreciates the opportunity to respond to the MSP request for comments.

Constrained off payments should not be eliminated prior to the implementation of Locational Marginal Pricing

TransCanada cannot support the total elimination of constrained off payments until a Locational Marginal Pricing (“LMP”) system is implemented. TransCanada recognises that other jurisdictions do not make constrained off payments however, these payments were deliberately included in the rules of the Ontario Market. Therefore, it would be unjust and unreasonable at this time for the IMO to abruptly eliminate a compensation mechanism that market participants had a reasonable expectation would continue and consequently made investment and contracting decisions on that basis. Completely eliminating constrained off payments may have severe negative impacts on the profitability of some generators. This could threaten reliability in the near term as these units consider whether to remain in active operation should they no longer be receiving constrained off payments.

TransCanada has long been a supporter of locational pricing in Ontario and until an LMP system can be put into place, the Uniform Pricing system should mimic as closely as possible an LMP system. Completely eliminating constrained-off payments ignores the fundamental objective of LMP, which is to provide proper price signals to market participants. As the MSP identified, constrained off payments *can* provide information about transmission bottlenecks. However, more work must be done to better segregate CMSC payments and publish results that provide meaningful information upon which market participants can act. Once LMP is implemented, locational prices will provide the price signals now provided by CMSC payments.

A compromise solution balances competing objectives until LMP is implemented

There are two opposing views regarding constrained off payments. Load participants seek the total abolition of constrained off payments and generators want to preserve payments indefinitely. As the market transitions from a uniform pricing system to LMP, a *compromise* solution should be developed to balance the needs of all market participants (a middle ground). This solution should be designed to reduce gaming or total constrained off payments, and it should allow for fair treatment of existing generators located in constrained areas. By extending the constrained off payment system until such time as LMP is implemented, generators are afforded the time to assess the long-term viability of the existing plant. In due course a decision will be made as to the value of future investment in upgrading the facility versus retiring the asset and making way for more efficient sources of supply.

As a means to halt any growth in the level of constrained off payments, the MSP may wish to consider eliminating constrained off payments to generators who choose to locate new facilities in constrained areas. This will ensure that generators locate in areas where new facilities provide a benefit to the system beyond the energy they provide through the alleviation of transmission congestion. However, this should only be an interim measure until LMP is implemented. The grand-fathering of payments to existing resources should not be considered a long-term solution because it creates a barrier to entry to new, more efficient resources that can displace higher cost, perhaps higher polluting existing resources. However, it properly puts all resource owners on notice, particularly new entrants, that constrained off payments will not be paid in the future.

TransCanada is of the view that the IMO should adopt the MSP proposal to consider rule changes that would allow the IMO to remove import offers that have not been selected in the two hour ahead pre-dispatch. As it stands now, imports receive constrained off payments even though the neighbouring ISO has been notified that the transaction will not clear in the Ontario market. However, these transactions remain on the Ontario schedule, even though it is impossible for this transaction to physically enter into Ontario. The MSP proposes that a rule change may be necessary in order to provide the IMO with the authority they need in order to remove these transactions from the Ontario schedule.

The pursuit of a “middle-of-the-road” solution not only respects the two competing views (eliminating constrained off payments versus their preservation), but it creates regulatory stability in the market. Constant market rule changes promote uncertainties, and these uncertainties create an atmosphere of apprehension within the investment community and lead to the addition of pricing premiums in the market. The proposed TransCanada solution helps to uphold market integrity, which in turn will promote market investment and price stability.

Conclusion

TransCanada suggests the following:

- For dispatchable generators, eliminate consideration of negative offers for the purposes of calculating constrained off payments;
- Retain constrained off payments for existing generators, but consider eliminating payments for generators who choose to locate new facilities in constrained areas;

- Recommend that the IMO work with Hydro One, the OEB and generators in promoting transmission upgrades or investments in congested regions;
- Revisit the issue of constrained off payments to imports. Further clarification is needed, but it appears to be an issue of market rule amendment or IMO algorithm.
- Recommend that the IMO publish CMSC payments to provide the signals that investor's need, while maintaining confidentiality.