From: Hunter, Kelly [mailto:khunter@hydro.mb.ca]
Sent: February 1, 2007 3:09 PM
To: MACD Inbox
Subject: Market Surveillance Panel Workshop on Feb 15

I would like to express my thanks for holding the workshop on Feb 15 - it helps the travel schedule for a number of us. I plan to attend in person.

In terms of examples for the workshop:

I would like to see one, preferably two, examples for each type of supply (non energy limited [thermal]; imports; energy limited [hydro]). For each example - go through the three operational tests page 17 of the January 17 presentation)

In terms of questions for the workshop:

1. Define profit: Is this the operating profit (MCP minus Offer Price), or is it what I would call the net profit, which is the operating profit minus an allocation of fixed costs?

2. Materiality Screen of $50 MWh: On page 27 of the Proposed Framework this was thought to be the level of "sufficient excess capacity available to discipline any potential exercise of market power". Rather than a hard dollar number - might this be more appropriate as a certain level of load or even better the supply cushion? The recent MSP report noted at page 16 "There tends to be upward pressure on the HOEP and a greater potential for price spikes when the supply cushion falls below 10%." Might the 10% supply cushion be a good materiality screen?

Jurisdiction on Imports:

3. Can you confirm import offers are voluntary, and therefore not subject to physical withholding tests? Further, does it follow importers do not have a must offer requirement? If Ontario does not have the jurisdiction to make importers offer into Ontario - does it have the jurisdiction to, at some future point in time, to require import offers to be within a specified price range?

Imports

4. The Proposed Framework states at p. 51 that "The methodology we propose assumes there is a stable relationship between offers into Ontario at a given intertie and prices in other markets". What analysis has the IESO done to support this assumption? It is not clear to me this ratio would be stable over time. Market volatility and supply demand dynamics would appear to be drivers of the ratio - and these are not stable.

5. To test the stability of the Reference Offer Indices - can you provide data similar to Table B-1, on a monthly basis for a two year period. This would allow us to see if there are season or year to year changes. In addition - would it be possible to calculate the ROI for each of the 24 hours in a day for the period indicated in Table B-1. This would allow us to see if there are any time of day effect on the ratio. Can we also have the standard deviations as these are a key part of the calculation.

Energy Limited Generation (Hydro)

The concept of the Water Allocation Efficiency Ratio is interesting. However, it is not clear to me whether the ratio would be measuring efficiency of the marketing of the plants operation, or the market volatility. What would help is some real WAER data for real hydro plants operating within the Ontario market, over a period of time. In a period of market stability, I would expect this number could be relatively high. However, consider an energy limited plant with 8 hours of water a day - scheduled from 10 AM to 6:00 PM, the highest prices hours as forecast. Just after 6:00 PM, a major source of generation is lost, causing prices to spike to their highest levels of the day until 10 PM. In this case the WAER could drop from 100% to 66% due to unforeseen events.

6. To test the stability and usefulness of the WAER, can we obtain sample average and daily WAER for a few unidentified plants, for a period of at least a year, to see if it is a stable measure.

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