



Power to Ontario.
On Demand.

July 17, 2013

Ms. Rosemarie T. Leclair
Chair & CEO
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Dear Ms. Leclair:

Re: Market Surveillance Panel Monitoring Report

Your letter of June 20, 2013, requests that I advise you of: a) the steps that the IESO plans to take in response to the recommendations made in the Market Surveillance Panel (MSP) *Monitoring Report on the IESO-Administered Electricity Markets* for the period from May 2012 – October 2012, and the estimated timelines for completion of those steps; and b) whether, in the IESO's view, any actions or market rule amendments, in addition to those reflected in the MSP's recommendations, should be taken or initiated. In addition, you requested an update on the status of actions taken by the IESO in response to the recommendations set out in the previous MSP monitoring report.

The status of all active recommendations are regularly updated and published on our website, and can be found on the IESO's market monitoring page at:
<http://www.ieso.ca/imoweb/marketMonitoring/monitoring.asp>.

The most recent report included two recommendations, one relating to the local market power framework and the other to CMSC payments to ramping down generators.

Local Market Power

Recommendation 2-1, MSP Monitoring Report for May 2012-October 2012:

The IESO should consider expanding the current local market power framework to cover analogous circumstances that arise as part of the day-ahead commitment process.

The IESO agrees that this recommendation warrants further consideration. However, with over ten years of market history and numerous market rule amendments, we believe an overall review would be appropriate and would allow the IESO to assess whether the existing local market power framework is achieving its intended purposes, and whether the present framework should be extended to the day-ahead commitment process. This review will commence in the first quarter of 2014.

Bruce B. Campbell
President and CEO
bruce.campbell@ieso.ca
t 416 506 2829

CMSC

Recommendation 3-1, MSP Monitoring Report for May 2012-October 2012:

The IESO should implement a permanent, rule-based solution to eliminate self-induced CMSC payment to ramping down generators.

The IESO continues to believe that there are legitimate costs to a generator when ramping down that should be accounted for in a generator's revenue requirement, but in that context generators should only be compensated for legitimate costs incurred.

The IESO also believes that this recommendation is better addressed as part of a more comprehensive review of the real-time and day-ahead guarantee programs. This review has already been initiated, and will address this recommendation. The stakeholder engagement process began in May 2013, with findings and recommendations targeted for Q4 2013. The market rules process, if applicable, will flow from those findings and recommendations.

Previous Report Recommendations: *MSP Monitoring Report for November 2011 – April 2012*

Transmission Rights Recommendations

Recommendation 3-1:

The IESO should reassess the design of the Ontario transmission rights market to determine whether it is achieving its intended purpose.

Recommendation 3-2:

The IESO should limit the number of transmission rights auctioned to a level where the congestion rent collected is approximately sufficient to cover the payouts to transmission right holders.

Recommendation 3-3:

(A) The IESO Board of Directors should authorize the disbursement of the portion of the Transmission Rights Clearing Account balance that currently exceeds the Reserve Threshold to reduce the transmission charges payable by loads.

(B) In the future, the IESO Board of Directors should authorize disbursements of Transmission Rights Clearing Account balances in excess of the Reserve Threshold after each year end.

Recommendation 3-4:

The IESO policy of selling only long-term transmission rights on single-circuit interfaces should be replaced by a policy of reserving a significant portion of the available transmission rights for sale at short-term transmission right auctions.

The IESO has initiated a phased review of these recommendations.

In February of this year, the IESO Board of Directors approved the disbursement of \$42 million, to be paid in 12 equal monthly installments. This disbursement began in April 2013 [Rec. 3-3A].

The IESO has since initiated a review of the confidence level and its associated stabilization design, which determines the number of transmission rights available for auction. The findings of this review and the resultant recommended changes to the confidence level will be presented to stakeholders through our normal stakeholder process in July of this year with the intent to return to the IESO Board of Directors with a recommendation in September 2013 [Rec. 3-2]. At the same time a recommendation will be made on the continued disbursement of the Transmission Rights Clearing Account [Rec. 3-3B].

In addition, a comprehensive review of the transmission rights market will be performed to determine whether the transmission rights market is achieving its intended purpose, and to determine what improvements can be made. This overall review is a longer term commitment and while the review has been somewhat delayed as we balance priorities, I expect that it will get underway later in 2013.

With respect to recommendation 3-4, the IESO does not have a policy of selling only long-term transmission rights on single-circuit interfaces. However there can be instances where only long-term transmission rights are available on single-circuit interfaces, for example where short term outages or lower monthly ratings result in no incremental rights being available over and above the long-term transmission rights sold cumulatively in the previous auctions for that period.

Under the comprehensive review of the transmission rights market the IESO also intends to consider whether a more conservative approach to determining available long-term and short-term transmission rights for single-circuit interfaces should be adopted.

Day Ahead Intertie Offer Guarantees and Transmission Rights Recommendation

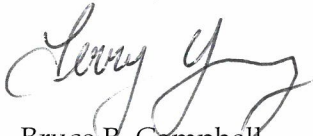
Recommendation 3-5:

As part of the IESO's planned review of the Enhanced Day-Ahead Commitment Process, the Panel recommends that the IESO examine the interplay between the day-ahead intertie offer guarantee program and the transmission rights market.

The IESO agrees with this recommendation. The IESO has initiated a review of the interplay between the day-ahead intertie offer guarantee program and the transmission rights market to determine whether there is an immediate solution that does not affect reliability or market efficiency. If no immediate solution is found, the issue will be addressed as part of the review of the real-time and day-ahead guarantee programs. The IESO has commenced internal work on the review of the guarantee programs and initiated the stakeholder process in May of 2013.

Please do not hesitate to contact me should you have any additional questions on these matters.

Yours truly,

A handwritten signature in cursive script, appearing to read "Bruce B. Campbell".

for Bruce B. Campbell
President & CEO

c: Bill Rupert, Acting Chair, Market Surveillance Panel

Attach.

IESO Response Matrix

MSP Recommendations

November 2011- October 2012



MSP Report for the period from May 2012 to October 2012 (released June 2013)

Recommendation 2-1

The IESO should consider expanding the current local market power framework to cover analogous circumstances that arise as part of the day-ahead commitment process.

IESO Response

The IESO agrees that this recommendation warrants further consideration. However, with over ten years of market history and numerous market rule amendments, we believe an overall review would be appropriate and would allow the IESO to assess whether the existing local market power framework is achieving its intended purposes, and whether the present framework should be extended to the day-ahead commitment process. This review will commence in the first quarter of 2014.

Recommendation 3-1

The IESO should implement a permanent, rule based solution to eliminate self-induced CMSC payments to ramping down generators.

IESO Response

The IESO continues to believe that there are legitimate costs to a generator when ramping down that should be accounted for in a generator's revenue requirement, but in that context generators should only be compensated for legitimate costs incurred.

The IESO also believes that this recommendation is better addressed as part of a more comprehensive review of the real-time and day-ahead guarantee programs. This review has already been initiated, and will address this recommendation. The stakeholder engagement process began in May 2013, with findings and recommendations targeted for Q4 2013. The market rules process, if applicable, will flow from those findings and recommendations.

MSP Report for the period from November 2011 to April 2012 (released January 2013)

Recommendation 3-1

The IESO should reassess the design of the Ontario transmission rights market to determine whether it is achieving its intended purpose.

IESO Response

The IESO agrees with this recommendation and will perform a comprehensive review of the transmission rights market to determine whether the transmission rights market is achieving its intended purpose, and to determine what improvements can be made. This overall review is a longer term commitment and while the review has been somewhat delayed as we balance priorities, it is expected to get underway later in 2013.

Recommendation 3-2

The IESO should limit the number of transmission rights auctioned to a level where the congestion rent collected is approximately sufficient to cover the payouts to transmission right holders.

IESO Response

The IESO initiated a review of the confidence level and its associated stabilization design which determines the number of transmission rights available for auction. This is the first phase of the comprehensive review (refer to recommendation 3-1). The findings of this first stage and the resultant recommended changes to the confidence level will be presented to stakeholders through our normal stakeholder process with the intent to return to the IESO Board of Directors with a recommendation in September 2013.

Recommendation 3-3

(A) The IESO Board of Directors should authorize the disbursement of the portion of the Transmission Rights Clearing Account balance that currently exceeds the Reserve Threshold to reduce the transmission charges payable by loads.

(B) In the future, the IESO Board of Directors should authorize disbursements of Transmission Rights Clearing Account balances in excess of the Reserve Threshold after each year end.

IESO Response

In February of this year, the IESO Board of Directors approved the disbursement of \$42 million, to be paid in 12 equal monthly installments. This disbursement began in April 2013.

A recommendation will be made on the continued disbursement to the IESO Board at the completion of the first phase of the comprehensive review in September 2013.

Recommendation 3-4

The IESO policy of selling only long-term transmission rights on single-circuit interfaces should be replaced by a policy of reserving a significant portion of the available transmission rights for sale at short-term transmission right auctions.

IESO Response

The IESO does not have a policy of selling only long-term transmission rights on single-circuit interfaces. However there can be instances where only long-term transmission rights are available on single-circuit interfaces, for example where short term outages or lower monthly ratings result in no incremental rights being available over and above the long-term transmission rights sold cumulatively in the previous auctions for that period.

Under the comprehensive review of the transmission rights market the IESO will consider whether a more conservative approach to determining available long-term and short-term transmission rights for single-circuit interfaces should be adopted.

Recommendation 3-5

As part of the IESO's planned review of the Enhanced Day-Ahead Commitment Process, the Panel recommends that the IESO examine the interplay between the day-ahead intertie offer guarantee program and the transmission rights market.

IESO Response

The IESO agrees with this recommendation. The IESO has initiated a review of the interplay between the day-ahead intertie offer guarantee program and the transmission rights market to determine whether there is an immediate solution that does not affect reliability or market efficiency. If no immediate solution is found, the issue will be addressed as part of the review of the real-time and day-ahead guarantee programs. The IESO has commenced internal work on the review of the guarantee programs and initiated the stakeholder process in May of 2013.