

November 3, 2015

Ms. Rosemarie T. Leclair
Chair & CEO
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Leclair:

Re: Market Surveillance Panel Monitoring Report

I am writing in response to your letter of October 5, 2015, requesting that I advise you of: a) the steps that the IESO plans to take in response to the recommendation made in the Market Surveillance Panel (MSP) *Monitoring Report on the IESO Administered Electricity Markets* for the period from May to October 2014, and the 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 recommendations, should be taken or initiated.

The most recent report included two recommendations: one relating to the price setting methodology at the interties when the Net Interchange Scheduling Limit is binding or violated, and the other related to generator cost submissions under the Real-Time Generator Cost Guarantee Program.

Intertie Zonal Price Setting Methodology with a binding or violated Net Interchange Scheduling Limit

Recommendation 2-1, MSP Monitoring Report for May – October 2014:

The Panel recommends that the IESO assess the methodology used to set the intertie zonal price for a congested intertie when the Net Interchange Scheduling Limit is binding or violated, in order to make the incentives provided by the intertie zonal price fit the needs of the market.

The IESO is currently assessing how changes to the intertie zonal price setting methodology would address the concerns noted by the MSP. The results of this work will be used to determine whether a modification to the methodology is both warranted and feasible. Due to the complexity of the intertie zonal price setting methodology, any modifications will require careful analysis of the impacts, stakeholder engagement, system tool changes and possible market rule amendments. The IESO is in the process of determining the expected timeline which is subject to several dependencies and will provide an update once a firm schedule has been established.

Real-time Generation Cost Guarantees – Generator Cost Submission Categories

Recommendation 2-2, MSP Monitoring Report for May – October 2014:

To the extent that the IESO believes the Real-Time Generation Cost Guarantee program continues to be needed, the Panel recommends that the IESO require generators to make more specific cost submissions under that program.

The IESO has initiated a stakeholder engagement, “RT-GCG Program Cost Recovery Framework,” commenced on October 27, 2015,¹ which will address MSP recommendation 2-2. Under this engagement, the IESO will present a more clearly defined cost recovery framework aimed at clarifying and increasing the detail of submissions by market participants of costs eligible for recovery under the program. The implementation of proposed changes is targeted for Q3 of 2016. These changes to the current RT-GCG program are intended to be transitional, until a more permanent market design solution can be developed. The IESO’s longer-term plan, while not part of this initiative, is to explore the implementation of an intra-day unit commitment program comprised of three part offers and multi-hour optimization in place of the current RT-GCG program.

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

Yours truly,



Bruce B. Campbell

c: Glenn Leslie, Chair, Market Surveillance Panel

¹ <http://www.ieso.ca/Pages/Participate/Stakeholder-Engagement/RT-GCG-Program-Cost-Recovery-Framework.aspx>