

Adoption of Monitoring Document on Generator Offer Prices Used to Signal an Intention to Come Offline

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The Market Surveillance Panel (the “Panel”) has adopted a new Monitoring Document that outlines evaluative criteria that the Panel will use in monitoring for gaming in relation to prices offered by generators in order to take their units offline. The Monitoring Document therefore also provides guidance to generators regarding the level of offer prices that will not normally trigger a gaming investigation if a generator raises its offer price to signal an intention to come offline for *bona fide* business reasons.

The Monitoring Document is available on the Ontario Energy Board’s website at <http://www.ontarioenergyboard.ca/OEB/Industry/About+the+OEB/Electricity+Market+Surveillance/Monitoring+Document+-+Generator+Offers>. It takes effect immediately.

Background

In recent monitoring reports, the Panel observed that some generators were using very high prices to signal their intention to come offline. Such prices were much higher than needed to ensure that the generating unit was dispatched off, and also resulted in very high self-induced Congestion Management Settlement Credit (CMSC) payments for the ramp-down period.

On June 17, 2011, a proposed version of the Monitoring Document was posted for Independent Electricity System Operator (IESO) and market participant comment on the Board’s website. The Board received five written comments. Among the comments received, market participants questioned:

- the rationale for moving forward with the Monitoring Document when the IESO was addressing the matter through a stakeholdering initiative;
- whether the introduction of the IESO’s enhanced day ahead commitment process (EDAC) would eliminate the need for the Monitoring Document;
- the basis for the proposed 130% offer price level; and
- the appropriateness of a “bright line” threshold.

The Monitoring Document as adopted by the Panel reflects the Panel’s consideration of all five written comments.

The Panel notes that the IESO’s stakeholdering initiative pertaining specifically to CMSC payments associated with ramp-down has been suspended. Although the

IESO is currently examining the broader issue of whether to evolve beyond the two sequence market structure from which CMSC payments are derived, the Panel considers it appropriate to adopt the Monitoring Document to provide guidance to market participants until such time as a permanent rule-based solution is implemented. The introduction of EDAC will not eliminate CMSC payments during the ramp-down period, and therefore does not eliminate the need for the Monitoring Document.

With regard to the 130% offer price level, the Panel reviewed historical pricing patterns in the wholesale market. The analysis suggests that offer price levels that are not more than 30% above a generator's three hour ahead pre-dispatch shadow price will normally provide a high degree of assurance that the unit will come offline in real-time. The Monitoring Document as adopted by the Panel therefore retains this offer price level. It also continues to reflect the need to accommodate periods of low pricing by reference to offer prices that do not exceed the greater of: (i) the 130% level; or (ii) the generator's cost. With respect to the latter, the Monitoring Document has been modified to confirm that the Panel will consider the generator's marginal or other incremental or opportunity cost. The Monitoring Document now also specifies that, where a generator can document that it would incur higher marginal or other incremental or opportunity costs to continue to operate beyond its desired ramp-down period, the Panel will consider the nature and magnitude of such costs in its assessment.

As indicated in the Monitoring Document, prices above the levels set out in the Monitoring Document will not automatically lead to a gaming investigation, nor will prices below those levels necessarily preclude one.

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The Market Surveillance Panel, a Panel of the Ontario Energy Board, monitors, investigates, and reports on activities and conduct in Ontario's IESO-administered electricity markets.