



July 20th, 2011

Ontario Energy Board Electricity Market Surveillance Panel Proposed Monitoring Document on Generator offer prices used to signal an intention to come off-line

Comments by Goreway Power Station

Goreway Power Station has reviewed the MSP's document referenced above and dated June 16, 2011, and appreciates the opportunity to comment. We are pleased to provide comments from several perspectives on the issues arising from the document.

First, we request clarification in order that we can fully understand the proposal and the panel's rationale for this specific proposal. Please refer to Appendix A for the specifics. Only on receipt of the requested information we will be able to comment fully on the proposal, and we therefore request the opportunity to submit such further comment following receipt of this information.

As noted at the start of section 2 of the document "*the Panel generally expects that generators which are online will continue producing electricity as long as it is economic to do so*". We suggest that this is really an assumption by the panel which is not, when considering unit commitments and 5 minute dispatch, well founded. Rational planning of unit commitment and de-commitment takes place in the day ahead or pre-dispatch time frame, in which the market operates at hourly granularity. Real time energy offers can only be submitted at hourly granularity. The panel needs to recognize the rationality of hourly planning for commitment and de-commitment. Safe-haven provisions should not be based on the assumption that generators would be expected to defer de-commitment decisions 5 minutes at a time on the basis of interval shadow price economics, which may in any event result in no more than break-even compensation.

We are concerned about the panel's apparently normative approach to acceptable offer price strategies in a market that is designed to incent but not mandate certain behavior and in which market power of most participants is immaterial. The panel appears to be postulating a very narrow safe haven approach to a market that should benefit from a diversity of generator strategies.

We are concerned about the apparent lack of recognition of inefficiencies and costs to which generators may be subject during ramp down. Marginal costs per MWh are assumed unchanged, whereas the conversion inefficiencies and no-load run costs becomes increasingly significant as a unit ramps down.



We are concerned at the panel's silence on the implications of EDAC, which is scheduled to come into effect within three months. It is not clear if the panel has considered the implications with respect to commitment and de-commitment planning, marginal cost discovery¹ or pre-dispatch energy price veracity².

We are concerned that the panel has identified a key cause of the problem in the 3x ramp rate used in the unconstrained schedule, but has not even acknowledged that correction of this anomaly represents an alternative solution to the asserted problem. There is thus no analysis of the relative benefits of that alternative approach. We encourage the panel to address this in its next draft of this document. Pending this analysis, we question the need for any action by the panel at this stage.

We look forward to receipt of the information requested, and to an updated draft document that will address the concerns identified above. As noted in the context of the information request, it is only on receipt of this information and the more complete draft that we will be able to comment fully on the proposal. We therefore request the opportunity to submit such further comment following receipt of the information and an updated draft.

Yours truly,

A handwritten signature in black ink, appearing to read "SHANE HARWOOD", written in a cursive style.

Shane Harwood
Vice-President
Energy Management

¹ The panel's final paragraph refers only to MGBRT pricing, but provides no clarity if this is all-in pricing as provided day ahead (and thus including no-load run costs) or real time energy only pricing which would be unrepresentative.

² Energy offers exclude no-load run costs during EDAC commitment periods. The changed pricing dynamics in pre-dispatch and real time constrained and unconstrained schedules under EDAC remain to be discovered, unless the panel has analysis it is prepared to disclose. The proposed T-3 pre-dispatch safe haven may therefore be totally redundant as it may systematically exclude all no-load run costs that are part of the unit marginal costs of commitment. So the panel's proposed marginal cost safe haven could be the only active safe haven provision. The determination of safe haven provisions more representative of hourly planned unit commitment and de-commitment becomes even more critical.



Appendix A

Information-related concerns

Extremely high degree of certainty

The paper refers in section 2.3 paragraph two (2) to the fact that an offer of 130% of T-3 pre-dispatch locational shadow price would provide an “extremely high degree of certainty that the facility will come offline.” Please clarify what the panel means by an “extremely high degree of certainty” and confirm that this is no less than the 99.9% certainty that we would associate with such a term. Please provide the analysis that supports this. We would expect that this analysis would provide at least the following:

- Focus on evening ramp down hours in which de-commitment of fossil units is historically most likely;
- Identify the highest 5 minute shadow price³ in the first half of each such hour and calculate this as a percentage of the corresponding T-3 pre-dispatch shadow price;
- Determine the frequency distribution of such percentages and the percentile (not less than 99.9%) required to provide the extremely high degree of certainty which the panel has recognised as appropriate.

As noted in the letter to which this appendix is attached, we are concerned that EDAC may materially change the relationship between pre-dispatch prices and full marginal costs of commitment. Please provide analysis of the panel’s expectations in this regard.

³ *The Ontario electricity market operates at hourly granularity in the predispach time frame, at one hour granularity for real time offer prices, and at 5-minute granularity in the real time dispatch of Ontario dispatchable resources. All generator commitment programs operate in the predispach time frame at one hour granularity. We believe that most registered generator market participants manage all unit commitments and de-commitments at one hour granularity corresponding to predispach and offer price granularity, and that this is reasonable and appropriate. We see significant volatility in 5 minute energy market prices and 5 minute shadow prices, particularly in the hours of high system down-ramp in which we would expect to be de-committing. The ramp down is initiated off the 5 minute real time dispatch; so that the hourly offer prices must exceed these 5 minute dispatch shadow prices.*