



Power to Ontario.  
On Demand.

March 24, 2011

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Dear Ms. Chaplin:

Re: Market Surveillance Panel Monitoring Report

Your letter of March 4, 2011, requested that I advise you of the steps the IESO was taking in response to the MSP report. Specifically, you asked that I address two areas raised in the report that are of particular concern to you. First, CMSC payments in the Northwest, leading to recommendation 3-3, and second, Generation Cost Guarantee (GCG) payments, leading to recommendation 3-4.

Let me assure you that the circumstances that lead to these recommendations are of concern to me as well. In both cases there is work underway addressing the Panel's recommendations.

### Constraint Payments in the Northwest

As noted in your letter, this section of the MSP report (section 3-2) suggests that Ontario loads receive little or no benefit from the CMSC payments that they fund through uplift charges. Recognizing that Ontario's two schedule uniform price market design is at the heart of the Panel's CMSC concerns, the MSP has recommended that:

#### *Recommendation 3-3:*

*As part of its "market road map" process, the IESO should work with stakeholders to examine the feasibility of replacing the two-sequence design with locational pricing, variable pricing for dispatchable resources or other alternatives.*

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We accept this recommendation and acknowledge the Board's support for examining alternatives to replace the two-sequence design. This work will be undertaken through the Electricity Market Forum launched by the IESO.

However, the conclusion that Ontario loads receive little or no benefit from these payments is far too sweeping and misses some key considerations. For example, an offer from an importer that is accepted in the market can have the effect of lowering the Ontario market price for all consumers, even if the import does not flow due to transmission congestion. This benefit may be offset to some degree by other contract and regulatory arrangements but it is not likely to be entirely offset.

From a reliability perspective, CMSC payments also encourage generators and dispatchable loads to submit bids and offers. Without CMSC, there may be times at which generators in particular may choose not to participate in the market, reducing the resources available to meet local or province-wide needs.

Obviously each set of specific circumstances will produce its own result – my point is simply that these payments need to be looked at in the wider context of system reliability and market impacts before concluding that they have little or no benefit for consumers.

The current two-schedule market design does introduce considerable complexity and the interactions between the two schedules can have unintended results in some circumstances. Recognizing this, alternatives will be considered in the course of the work of the Electricity Market Forum. I expect the report of that stakeholder group will be available by year-end.

### **Generator Cost Guarantees (GCGs)**

MSP recommendation 3-4 addresses this matter in three parts.

#### **Parts (i) and (iii)**

- (i) The IESO should resume work on Stakeholder Engagement 84 regarding elimination of self-induced CMSC payments for ramping down generators and should amend the Generation Cost Guarantee program to ensure that all guaranteed costs are considered as part of the dispatch optimization.*
  
- (iii) The IESO should re-examine whether the GCG program continues to provide net benefit to the Ontario market once the Enhanced Day-Ahead Commitment (EDAC) process is implemented or as part of its "Market Roadmap" process.*

Later this year the IESO will put in service an Enhanced Day-Ahead Commitment process (EDAC). Consistent with the MSP recommendation, this process will consider all guaranteed costs in the optimization of the day-ahead commitments of resources. We expect that this will substantially reduce the need for and use of the current GCGs. On gaining experience with the operation of EDAC, we intend to re-examine the real-time GCG program, as recommended by the Panel.

As to resuming Stakeholder Engagement 84, in April we will be tabling a proposal in SE-84 for discussion with stakeholders addressing self-induced CMSC payments for ramping-down generators.

Part (ii)

- (ii) *On an interim basis until after-the-fact start-up cost submissions are capped by generator offer prices and CMSC payments to ramping down generators are eliminated, the IESO should amend the Generation Cost Guarantee program to limit generators to one start-up cost guarantee submission per day unless the IESO requests a second start during a day.*

We have considered this recommendation and intend to take an approach which we think will address the MSP concerns, but in a more effective manner. Our concern with the recommendation is that limiting generators to one start-up cost guarantee per day may prevent the use of the least-cost option later in the day simply because the least-cost generator available has operated earlier in the day. Instead, we will ensure that the costs recovered from any second start-up are limited to a level that reflects that the unit is already hot and would have both reduced start-up time and a shorter minimum run time. We believe this is likely to be a more cost-effective solution, and will better respond to the MSP concerns.

Should you have any additional questions on these matters, please do not hesitate to contact me. We will be developing responses to the balance of the recommendations, and these will be posted consistent with our ongoing practice in this regard.

Yours very truly,



Paul Murphy