

## IESO Annual OEB Status Update Report (Period January 2013 – December 2017)

MSP Report Date	Recommendation	Status of Actions Taken to Address the Recommendation
May 8, 2017	<b>Recommendation 3-1</b>  The IESO should take steps to ensure that dispatchable loads are only compensated for the amount of operating reserve they were capable of providing in real-time. More fundamentally, the IESO should explore options for ensuring unavailable OR is not scheduled in the first instance.	Market Rule enforcement conducted independently by the IESO's Market Assessment and Compliance Division is subject to confidentiality provisions in the Market Rules. As a result, a status of actions taken, if any, cannot be provided.
	<b>Recommendation 3-2</b>  The IESO should revise the methodology used to set the intertie failure charge to include congestion rents that an intertie trader avoids when it fails a scheduled transaction for reasons within its control.	<p>Due to the prioritization of the Market Renewal Program (MRP), the IESO had reduced capacity in 2017 for advancing other market enhancement projects. The Market Renewal Program will continue to be a corporate priority for the IESO, but the IESO is planning to advance other incremental market enhancement projects in 2018 that are consistent and cohesive with MRP. As such, the IESO will assess its projects and resourcing constraints and continue to communicate with the MSP on its market enhancement projects.</p> <p>Market Rules are in place that allow for the recovery of congestion rents that have been avoided, or Transmission Rights payments, when the intertie trader fails its transactions for illegitimate reasons. During 2017, the IESO has decided that more information is needed to fully assess whether changing the methodology by itself will lead to reduced failed transactions and an increase in reliability and market efficiency. The IESO will consider the structure of intertie failure charges in 2018 and determine an appropriate avenue to address the issue identified by the Panel using a holistic approach.</p> <p>The IESO will report back to the Panel upon completion of the review.</p>

IESO Annual OEB Status Update Report (Period January 2013 – December 2017)

MSP Report Date	Recommendation	Status of Actions Taken to Address the Recommendation
	<p><b>Recommendation 4-1</b></p> <p>A. The IESO should revise the manner in which it allocates disbursements from the Transmission Rights Clearing Account such that disbursements are proportionate to transmission service charges paid over the relevant accrual period.</p> <p>B. The IESO should not disburse any further funds from the Transmission Rights Clearing Account until such time that Recommendation 4-1(A) has been addressed.</p>	<p>Due to the prioritization of the Market Renewal Program (MRP), the IESO had reduced capacity in 2017 for advancing other market enhancement projects. The Market Renewal Program will continue to be a corporate priority for the IESO, but the IESO is planning to advance other incremental market enhancement projects in 2018 that are consistent and cohesive with MRP. As such, the IESO will assess its projects and resourcing constraints and continue to communicate with the MSP on its market enhancement projects.</p> <p>The IESO will be conducting a review of the Transmission Rights market including a review of the Transmission Rights Clearing Account (TRCA) disbursement methodology, review of the overall mechanism and understanding the impacts of the Single Schedule Market (SSM) and Day-Ahead Market (DAM) to ensure long-term alignment. The IESO will provide a status update to the Panel on at least a semi-annual basis.</p> <p>Meanwhile, until the review of the disbursement allocation methodology is completed, the IESO will continue with the semi-annual disbursements, as directed by the IESO Board and as detailed in Market Manual 5.5: Physical Markets Settlement Statements.</p>

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	<p><b>Recommendation 4-2</b></p> <p>The IESO should reassess the value provided by the capacity procured through its Demand Response auction in light of Ontario’s surplus capacity conditions, as well as the stated preference of the government and the IESO (through its Market Renewal initiative) for technology-neutral procurement at least cost.</p>	<p>The IESO was assigned responsibility for developing Demand Response (DR) in Ontario in 2013 with a mandate to develop DR to meet system and policy objectives in the short and longer term.</p> <p>The IESO has executed three annual DR Auctions. The auctions continue to support transition from contract-based mechanisms, annually increasing the quantity of capacity cleared at successively lower costs through a competitive, transparent mechanism. The IESO monitors the DR Auction, its outcomes and its successful DR participants.</p> <p>In the near-term, the IESO has an open engagement through the Demand Response Working Group to continue to enhance DR. An important consideration is to develop DR to be an equivalent capacity resource to generation resources that will compete to supply Ontario’s future capacity needs at lowest cost. The annual DR Auction approach allows the IESO to work with DR providers to develop their capabilities as integrated market resources fully supported through energy, operating reserve and future capacity markets.</p> <p>In the long-term, the IESO benefits from the learnings of transitioning from contract-based procurement to market-based acquisition. This experience is informing market participants and the IESO how an auction-based capacity mechanism can work and is positively influencing the design of the future incremental capacity auction.</p>
November 17, 2016	<p><b>Recommendation 2-1</b></p> <p>Given the number of recent changes in operating reserve market, the Panel recommends that the IESO review whether the real-time operating reserve prices transparently reflect the value of operative reserve as more Control Action Operative Reserve capacity is scheduled, and whether changes to Control Action Operative Reserve offer quantities and prices could</p>	<p>In October 2017, the IESO discussed with stakeholders proposed changes to Control Action Operating Reserve (CAOR) standing offer quantities to accurately reflect the capability of the control actions available. The IESO has received IESO Board approval to implement the proposed changes and targets implementation in Q1 of 2018. The proposed change will directly address the Panel’s recommendation to revisit the standing offer quantities to be more reflective of capability.</p> <p>In a second phase, the IESO will undertake the recommended review of the effectiveness of the overall CAOR mechanism. This review is expected to be initiated in Q3 2018, after the</p>

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	enhance the efficiency of the operating reserve market.	finalization of the Single Schedule Market High Level Design. Upon completion of the review, the IESO will report back to the Market Surveillance Panel.
	<p><b>Recommendation 3-1</b></p> <p>The Panel recommends that the IESO eliminate from the Real-time Generation Cost Guarantee (RT-GCG) program the guarantee associated with (a) incremental operating costs for start-up and ramp to minimum loading point; and (b) incremental maintenance costs for start-up and ramp to minimum loading point.</p>	<p>In 2016, the IESO committed to implement a RT-GCG Cost Recovery Framework and to assess proposed interim adjustments to the processes around unit commitment.</p> <p>In 2017, the IESO completed the RT-GCG Cost Recovery Framework engagement and the IESO Board approved the associated market rule amendment (MR-00425). MR-00425 enabled a new cost recovery framework for the RT-GCG program which increases the transparency of the costs eligible to be submitted, as well as reducing the scope and frequency of audits. The framework pre-defines 14 of 15 eligible program costs, removing the potential for overpayments.</p> <p>In addition to implementing the RT-GCG Cost Recovery Framework, the IESO assessed proposed interim adjustments to potentially reduce the frequency of RT-GCG starts. Specifically, the IESO investigated whether improving the information available to the Day-Ahead Commitment Process (DACP) would decrease the number of unit commitments made through the RT-GCG program. The IESO concluded that any changes aimed at improving the day-ahead accuracy of OR availability in real-time would not impact the overall number of RT-GCG starts.</p> <p>Prior to the implementation of the RT-GCG Cost Recovery Framework in 2017, the IESO had taken actions to improve the program, which included increasing the number of audits and issuing an Interpretation Bulletin for generators to clarify eligible costs. Annual program costs were \$23 million in 2016, down significantly from \$61 million in 2014.</p>

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		<p>Therefore, because the new cost recovery framework implemented in 2017 removes the potential for overpayments, and because the IESO continues to assert that a RT-GCG program is necessary for power system reliability, the IESO is not expecting to consider any further interim adjustments. Instead, the IESO will continue to focus on the Market Renewal Program, which will replace the RT-GCG program and result in a more efficient, competitive and transparent electricity market.</p> <p>In 2018, the IESO will present to the Market Surveillance Panel (MSP) a detailed analysis supporting the rationale for its previous assertions to the MSP that a real-time generator commitment mechanism is necessary, to allow the IESO to comply with North American power system reliability standards and ensure a reliable supply of electricity for Ontarians.</p>
	<p><b>Recommendation 3-2</b></p> <p>The Panel recommends that the IESO modify the RT-GCG program such that the revenues that are used to offset guaranteed costs under the program are expanded to include any net energy and operating reserve revenues earned, as well as all congestion management settlement credit (CMSC) payments received on: (a) output above a generation facility's minimum loading point during its minimum generation block run time (MGBRT), and (b) output generated after the end of the facility's MGBRT.</p>	<p>Please refer to the IESO's response above to Recommendation 3-1 (November 17, 2016).</p>

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October 8, 2015	<b>Recommendation 2-1</b>  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 better fit the needs of the market.	<p>Due to the prioritization of the Market Renewal Program (MRP), the IESO had reduced capacity in 2017 for advancing other market enhancement projects. The Market Renewal Program will continue to be a corporate priority for the IESO, but the IESO is planning to advance other incremental market enhancement projects in 2018 that are consistent and cohesive with MRP. As such, the IESO will assess its projects and resourcing constraints and continue to communicate with the MSP on its market enhancement projects.</p> <p>In 2016 and 2017, the IESO continued to monitor and has only observed one violation to the Net Interchange Scheduling Limit (NISL). The occurrence of the negative impacts to traders which were detailed in the Market Surveillance Panel’s October 2015 report has therefore been minimal during those two years. At this time, the materiality of the issue means that the IESO has prioritized MRP and other projects ahead of initiating changes to NISL. Furthermore, the discussions through the Single Schedule Market (SSM) project will inform next steps for the IESO as SSM will explore constraint violations and intertie pricing. In the meantime, the IESO will continue to monitor violations and if materiality significantly changes in 2018, the IESO will reassess the priority of this item relative to other market enhancement initiatives.</p>
	<b>Recommendation 2-2</b>  To the extent that the IESO believes the Real-Time Generator Cost Guarantee program continues to be needed, the Panel recommends that the IESO require generators to make more specific cost submissions under that program.	<p>This recommendation was addressed by the IESO in 2017 through the implementation of market rule amendment MR-00425-R00: Real-Time Generation Costs Guarantee – Cost Recovery Framework. The market rule amendment was effective August 1<sup>st</sup>, 2017.</p>

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February 2015  Market Surveillance Panel Investigation Report	<p>a) The IESO should review the CMSC payments being made to dispatchable loads since the November/December 2010 amendment to the Market Rules in order to determine whether there are significant amounts that continue to be unwarranted (i.e. paid as a result of market participant actions rather than to compensate for operating profit reductions arising from responding to dispatch instructions caused by grid conditions).</p> <p>b) If necessary, the IESO should make further amendments to the Market Rules to eliminate unwarranted CMSC payments to dispatchable loads.</p>	Market Rule enforcement conducted independently by the IESO's Market Assessment and Compliance Division is subject to confidentiality provisions in the Market Rules. As a result, a status of actions taken, if any, cannot be provided.
September 24, 2014	<p><b>Recommendation 3-2</b></p> <p>The Panel recommends that the IESO revise the way it allocates uplift charges associated with top-up payments under the real-time generation cost guarantee and day-ahead production cost guarantee programs so that the charges to the Ontario consumers and to exporters better reflect the extent to which each group causes those payments to be incurred.</p>	<p>The IESO concluded that exports are not the sole cause of additional real-time unit commitments and that a combination of factors are causing commitments in real-time. The IESO believes a revision of the uplift allocation methodology associated with top-up payments under the RT-GCG and Day-Ahead Production Cost Guarantee (DA-PCG) programs is best addressed through the implementation of a Day-Ahead Market and Enhanced Real-time Unit Commitment Mechanism that would enable the IESO to better identify the cause of any unit commitment and allocate those costs appropriately.</p> <p>The IESO will seek to formally close this recommendation in coordination with the Market Surveillance Panel in 2018.</p>



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January 6, 2014	<b>Recommendation 3-2</b>  If the IESO, after performing its detailed analysis, determines that the RT-GCG program continues to be needed, the Panel recommends that the IESO modify the RT-GCG program such that the revenues that are used to offset guaranteed costs under the program are expanded to include any profit (revenues less incremental operating costs) earned (a) on output above a generation facility's minimum loading point during its minimum generation block run time (MGBRT), and (b) on output generated after the end of the facility's MGBRT.	Please refer to the IESO's response above to Recommendation 3-1 (November 17, 2016).
	<b>Recommendation 3-3</b>  The Panel recommends that the IESO re-examine the question of integrating exports into EDAC to reduce the need to commit additional generation in real-time to meet export demand that currently only appears in the market in real-time. While the Panel is not recommending a specific approach for integrating exports, the following have been identified as potential options:  a) introduce a mechanism that encourages exports to bid in EDAC; or  b) include a forecast of exports when commitments are made under EDAC.	<p>a) Part a) was addressed in the IESO's January 31, 2014 response. The IESO stated that based upon its analysis in SE 21: Day-Ahead Market Evolution, it was not feasible to develop a mechanism to incent exports to participate in the Enhanced Day-Ahead Commitment (EDAC) process.</p> <p>b) The IESO has decided not to implement a forecast of exports in EDAC as it introduces unintended consequences that can result in other market inefficiencies. As such, the IESO believes that the most effective way to incorporate exports in the day-ahead time frame is the implementation of a Day-Ahead Market. The IESO is prioritizing the Market Renewal Program which introduces fundamental changes to the energy market, including the development and implementation of a Day-Ahead Market.</p> <p>The IESO will seek to formally close this recommendation in coordination with the Market Surveillance Panel in 2018.</p>



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June 21, 2013	<b>Recommendation 2-1</b> <p>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.</p>	<p>As part of the Market Renewal Program the IESO continues its work on the development of market power mitigation framework that will address market power mitigation in the day-ahead time frame. The consideration of design options for the new market power mitigation framework continues through the Incremental Capacity Auction, Single Schedule Market, Day-Ahead Market, and Enhanced Real-time Commitment projects. The IESO encourages the Market Surveillance Panel to participate in the discussions to provide the IESO with its perspectives on local market power.</p>
January 14, 2013	<b>Recommendation 3-1</b> <p>The IESO should reassess the design of the Ontario Transmission Rights (TR) market to determine whether it is achieving its intended purpose.</p>	<p>Due to the prioritization of the Market Renewal Program (MRP), the IESO had reduced capacity in 2017 for advancing other market enhancement projects. The Market Renewal Program will continue to be a corporate priority for the IESO, but the IESO is planning to advance other incremental market enhancement projects in 2018 that are consistent and cohesive with MRP. As such, the IESO will assess its projects and resourcing constraints and continue to communicate with the MSP on its market enhancement projects.</p> <p>The IESO will be conducting a review of the Transmission Rights market including a review of the Transmission Rights Clearing Account (TRCA) disbursement methodology, review of the overall mechanism and understanding the impacts of the Single Schedule Market (SSM) and Day-Ahead Market (DAM) to ensure long-term alignment. The IESO will provide a status update to the Panel on at least a semi-annual basis.</p>
	<b>Recommendation 3-5</b> <p>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.</p>	<p>The IESO concluded that the day-ahead intertie offer guarantee and the transmissions rights market are operating as designed. The IESO has also observed that the strategic offer behaviour identified has ceased to occur and determined that no changes to the market rules are required at this time.</p> <p>The IESO will seek to formally close this recommendation in coordination with the Market Surveillance Panel in 2018.</p>