

## **R-4096-2019 : HQT – Demande tarifaire**

### **Demande de renseignements n° 1 du Regroupement national des conseils régionaux de l’environnement du Québec (« RNCREQ ») à BRTM**

#### **QUESTIONS FOR THE EXPERT MARSHALL**

##### **1. Référence : C-EBM-0001, page 7**

###### **Citation :**

11. In large structured markets like ISO-NE and NYISO, these “competitive, transparent and liquid conditions exist” and FERC has approved that imbalances be settled at the market clearing price. For utilities that are not part of a large market and do not have “competitive, transparent and liquid conditions”, then incremental cost is determined by the last 10 MW rule.

###### **Demandes :**

- 1.1. Are substantial spreads likely to be found between the incremental and decremental price for a given hour a) in large structured markets where “competitive, transparent and liquid conditions exist”, and b) in utilities « that are not part of a large market and do not have “competitive, transparent and liquid conditions”, where “incremental cost is determined by the last 10 MW rule ».**
- 1.2. More specifically, regarding the latter category, please explain the implications of « the last 10 MW rule » on the likely spreads between incremental and decremental prices.**

##### **2. Référence : C-EBM-0001, page 22, Figure 5**

###### **Préambule :**

Figure 5 indicates that, on an annual basis, average market prices in the highest-priced market (New England) exceeded those in the lowest-priced market (Ontario) by a factor ranging from 2.4 (in 2016) to 3.3 (in 2017).

**2.1. In Mr. Marshall’s experience, do these figures adequately describe the spreads between the Ontario and New England market prices on an hourly basis? In other words, can one assume that New England prices generally exceed Ontario prices by a factor of 2 or 3? If not, please characterize the spreads between the hourly market prices in these two markets, using tables or graphs if appropriate.**

**3. Référence : C-EBM-0001, page 10**

**Citation :**

While FERC in the 890 Orders allow consideration of a market proxy as was discussed earlier, it is only to determine a “proxy price” (not prices) that “must represent a valid alternative to the incremental cost calculation” which produces one cost to be used for both incremental cost and decremental cost. (underlining in original)

**3.1. In Mr. Marshall’s view, has FERC ever indicated that it would be open to a market proxy that implied significantly different incremental and decremental prices for the same place at the same hour?**

**4. Référence : C-EBM-0001, pages 24-26**

**Citation :**

69. The Existing Method settlement prices in Bands 1, 2 and 3 could explain why historic deviations have generally been long. The Incremental price (owed for short deviations) is very high and the Decremental price (paid for long deviations) is very low. These are essentially penalties for any schedule deviation. But the penalty is worse for short deviations so prudent scheduling will tend to be slightly on the long side. It is not the rare arbitrage opportunity (as claimed by HQP) that has created more long imbalances. Rather, it is the differential pricing structure of the imbalance settlement method with high prices for short imbalances that may influence transmission customers to schedule prudently toward an over-schedule.

6.4 Penalties Exist in Band 1

70. Consider Band 1 settlement at the end of a month. Under the FERC pro forma OATT, which applies a single price for both Incremental and

Decremental settlement, a transmission customer will only pay for its net short deviations or be paid for its net long deviations. This occurs because there is a single price for both Incremental and Decremental settlement so long deviations cancel out short deviations and only the net amount of deviation is settled. This makes Band 1 settlement under the pro forma OATT similar to inadvertent settlement where energy is paid back in kind at a later time. It encourages transmission customers to schedule in Band 1 because there is no financial penalty in that band. The penalties in the pro forma only apply to Bands 2 and 3.

71. In the HQT OATT for Band 1 “Generator Imbalance Service is charged [...] on an hourly basis to any generator imbalance arising from one or more of the Transmission Customer’s scheduled transactions, payable at the end of each month and equalling 100% of the incremental or decremental price.” Each imbalance is settled each hour but only paid monthly. A long settlement at \$28.2/MWh will not cancel out a short settlement at \$46.8/MWh. A transmission customer needed about 17MWh of long deviations to cancel out 10MWh of short deviations in order to be financially neutral. For each 1 MWh of deviation that should be cancelled there was a penalty of  $\$46.8 - 28.2 = \$18.6/\text{MWh}$ . This appears somewhat harsh as scheduling within Band 1 is to be encouraged.

...

79. The figure shows that BRTM is being penalized by the Incremental/Decremental price differential for doing a good job and scheduling in Band 1. Although the Régie has already decided that Band 1 should include some form of penalty, we want to draw the following to the Régie’s attention. BRTM received payments of \$5.4/MWh for 477 MWh of long deviations in Band 1 and paid \$26.0/MWh for 148 MWh of short deviations in Band 1. The combination shows that BRTM provided 329 MWh of energy to HQP and did not receive any payment for it. Conversely, they had to pay HQP \$1250 to take the energy.

80. This is unlike any settlement in Band 1 at any other utility in North America. As is shown in Appendix C, Band 1 settlement across North America is effectively at marginal cost with no penalties or as inadvertent with a monthly settlement at average cost for the net imbalance.  
(underlining added)

**Préambule:**

The Joint Proposition includes monthly incremental and decremental prices, which are applied to the net deviations of the month as long as they remain within Band 1.

**Demandes :**

- 4.1. In Mr. Marshall’s opinion, does the addition of monthly incremental and decremental prices in the joint proposal fully resolve the issue raised in the citation?**
- 4.2. Please confirm that, for deviations in Bands 2 or 3 ( $\pm 1.5\%$  or  $\pm 2\text{MW}$  of the programmed amount), settlement is still carried out on an hourly basis.**
- 4.3. In light of your previous response and the arguments presented in the Citation, please indicate whether, in your opinion, the Joint Proposal will still incent transmission customers to err on the long side?**

**5. Référence : C-EBM-0001, page 33**

**Citation :**

Energy Imbalance settlement in all of these large LMP markets is done as a market transaction. Tariff wordings may vary but Schedule 4 of the PJM tariff states it best. “For each Transmission Owner, Transmission Customer receiving service under Tariff, Part II, and Network Customer, Energy Imbalance Service is considered to be PJM interchange and will be charged at the Locational Marginal Price.”

By 2022, other than isolated areas, the only utilities with the pro forma three tiered penalty structure based on dispatch price will be those in the southeastern area of the USA.

**Demandes :**

- 5.1. Please confirm that when “Energy Imbalance Service is ... charged at the Locational Marginal Price,” that price is the same whether the imbalance is positive or negative; i.e., that incremental and decremental prices are identical. If this statement needs to be corrected or nuanced, please do so.**
- 5.2. For utilities in the southeastern area of the USA that use “the pro forma three tiered penalty structure based on dispatch price”, please describe in detail how that dispatch price is determined, and the extent (if any) to which it**

**differs depending on whether the imbalance is positive or negative (incremental vs. decremental price).**

**6. Référence : C-EBM-0001, page 35**

**Citation :**

[re New Brunswick] The three penalty bands in the FERC pro forma OATT are not applied. Imbalance settlement is at system marginal cost and it applies to all third party loads and generators inside the province plus exports and imports from and to NMe and PEI as well as. Those interconnections are not settled as inadvertent.

- 6.1. Please explain how hourly system marginal cost is determined in New Brunswick.**
- 6.2. Please clarify if, in New Brunswick, any distinction is made with respect to system marginal cost as applied to positive or negative imbalances (incremental vs. decremental price).**

**7. Référence : C-EBM-0001, page 21**

**Citation :**

59. It is not the obligation of the TC to go to the market to settle its imbalance. The obligation is for HQT as the Transmission Provider to settle the imbalance. The service is being provided by HQP for HQT at prices that should be at its marginal cost. HQT can then add the penalties of +/- 10% and +/- 25% for Band 2 and Band 3. (underlining added)

- 7.1. In Mr. Marshall's understanding, how should the marginal cost of a hydropower producer with substantial reservoir storage be determined?**
- 7.2. Would Mr. Marshall expect that, to guide its internal operations, HQP estimates its marginal costs on an ongoing basis? Would he expect that value to vary dramatically over time? Based on your professional experience, please explain, to the best of your ability, how you would expect HQP to go about determining the value of an incremental or decremental kWh-equivalent of stored water.**

**7.3. Can Mr. Marshall suggest a way that the Régie could fix a marginal cost for HQP, for regulatory purposes, without infringing on the entity's commercial interests?**

**8. Référence : C-BRTM-0036, page 3**

**Citation :**

De plus, bien que la proposition du Producteur en 2010 incluait l'application de frais de marchés et du tarif applicable pour le service de transport horaire de point à point (les « **Frais fixes** ») dans la méthode de calcul prévue pour établir les prix incrémentiel et décrémental, et que cette application des Frais fixes ait été retenue par la Régie dans sa décision D-2012-010, les Parties ont conclu lors de leurs discussions que cette étape du calcul n'était pas conforme à la réalité du Service en réception qui est rendu à l'intérieur du réseau du Transporteur. Ainsi, il est proposé de retirer l'application de ces Frais fixes de la méthode de calcul prévue pour établir les prix incrémentiel et décrémental. (nos soulignés)

**8.1. As it is now recognized that the imbalance service is provided from within Quebec, does Mr. Marshall think it is appropriate that the incremental and decremental prices be based on hourly prices in external markets? If so, why?**

**8.1.1. If so, should they be based on real time prices, or on day-ahead prices? Please explain your response.**

**8.2. As it is now recognized that the imbalance service is provided from within Quebec, does Mr. Marshall think that the settlement price when deliveries are greater than programmed deliveries should be equal to the highest price among the three markets, and that, when deliveries are less than programmed deliveries, they should be equal to the lowest price among the three markets? If so, why?**

**QUESTIONS FOR BRTM**

**9. Référence : C-EBM-0001, page 10**

**Citation :**

It is not just that HQT proposed [in R-3669-2008 phase 2] different prices for incremental cost and decremental cost. They actually proposed different prices for decremental cost at each of Band 1, 2 and 3 and a different price for incremental cost at Band 1 than at Bands 2 and 3. The same cost was only proposed to be used for incremental costs at Bands 2 and 3. For the same reasons discussed above, this was not comparable to the requirements in the FERC Orders. Actually, given the magnitude of the differences in band prices, WKM considered this proposal as unduly discriminatory. (underlining added)

**9.1. Does BRTM concur with WKM's judgement that HQT's proposal in R-3669-2008 Phase 2, which « proposed different prices for incremental cost and decremental cost » and « proposed different prices for decremental cost at each of Band 1, 2 and 3 and a different price for incremental cost at Band 1 than at Bands 2 and 3 », was unduly discriminatory?**

**9.2. Does BRTM consider the current joint HQT/BRTM proposal, which proposes different prices for incremental cost and decremental cost but does not propose different incremental and decremental prices for each Band, to be unduly discriminatory? If not, why not?**

#### **10. Référence : C-BRTM-0036, page 4**

##### **Citation :**

Calcul du montant par le Transporteur : À la fin du mois, le calcul du prix incrémentiel ou décrémental est basé sur la même approche qu'à l'heure actuelle dans les Tarifs et conditions de services (100% du prix incrémentiel ou décrémental), sauf pour deux éléments :

La moyenne de tous les prix en temps réel du mois est calculée pour chacun des trois marchés (NY Zone M, NE Phase II (*Sandy Pond*) et ONT OUTAOUAIS) :

Écart net positif (livraisons > programmes) : Prix moyen le moins élevé des 3 marchés; ou

Écart net négatif (livraisons < programmes) : Prix moyen le plus élevé des 3 marchés;

**10.1. Veuillez expliquer pourquoi la Proposition conjointe utilise la moyenne des prix en temps réel plutôt que les prix DAM.**