



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

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| Identification No.: MR-00223-R00 | |
| Subject: Transmission Rights | |
| Title: Changes to Transmission Rights Market– Participation Requirements | |
| Nature of proposal (please indicate with X): <input type="checkbox"/> Alteration <input checked="" type="checkbox"/> Deletion <input type="checkbox"/> Addition | |
| Chapter: 8 | Appendix: |
| Sections: 4.8.3 | |
| Sub-sections proposed for amending: 4.8.3 | |

PART 2 – PROPOSAL HISTORY

| Version | Reason for Issuing | Version Date |
|---------|---|--------------|
| 1.0 | Submitted for TP Review | May 14, 2003 |
| 2.0 | Recommended by Technical Panel and submitted for IMO-Board approval | May 21, 2003 |
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Approved Amendment *Publication* Date:

Approved Amendment *Effective* Date:

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made
- Alternative solutions considered
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

It is proposed to remove the 30-day waiting period for market participants wishing to be authorized in the transmission rights (TR) market. This waiting period is no longer required given the other requirements for a market participant to be authorized in the TR market.

Under the existing market rules “no person may participate in a round of a TR auction unless that person has been authorized by the IMO as a TR participant at least thirty days prior to the date on which the round of the TR auction is to be conducted.” This 30-day time period was originally written into the rules to ensure there was sufficient time for the IMO to make any required checks that may be imposed by the Ontario Securities Commission (OSC).

In the development of the TR market authorization process and consideration of applicable securities regulations, it was determined that a potential TR participant should meet certain standards of sophistication. The TR participant declares to the IMO that the participant meets good standards prior to being authorized. Therefore, due to the self-declaration by the TR participant the IMO does not have to verify the TR participant’s declaration thus the 30-day waiting period can be removed from the market rules.

PART 4 – PROPOSED AMENDMENT

4.8 Participation in TR Markets and Rules Applicable to TR Participants

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4.8.3 ~~[Intentionally left blank.]No person may participate in a round of a TR auction unless that person has been authorized by the IMO as a TR participant at least thirty days prior to the date on which the round of the TR auction is to be conducted.~~

PART 5 – IMO BOARD COMMENTS



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

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|---|------------------|
| Identification No.: MR-00223-R01 | |
| Subject: Transmission Rights | |
| Title: Changes to Transmission Rights Market –TR Auction Periods | |
| Nature of proposal (please indicate with X): <u> X </u> Alteration <u> </u> Deletion <u> </u> Addition | |
| Chapter: 8 | Appendix: |
| Sections: 4.11 | |
| Sub-sections proposed for amending: 4.11.2, 4.11.4, 4.11.5, 4.11.6 | |

PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00223-R00

| Version | Reason for Issuing | Version Date |
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- The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made
- Alternative solutions considered
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IMO-administered markets*.

It is proposed to remove the requirement for long-term sub-auctions and to prescribe that any unsold long-term transmission rights would then be offered as a monthly right in the applicable short-term auction. These long-term sub-auctions are deemed by TR participants as providing little benefit to the transmission rights market and pose an additional administrative burden on the market.

Under the existing market rules (chapter 8 section 4.11.3) the IMO is required to conduct a series of long-term sub-auctions if the software required to offer transmission rights of varying periods as part of a long-term auction is not available. These long-term sub-auctions are in addition to the offering of a yearly TR product on a quarterly basis and the monthly auction of monthly TR products.

Future TR software development required to make offering transmission rights of varying periods as part of a long-term auction possible is being assessed as part of the larger Market Development/Market Evolution Program (MEP). The IMO believes it is not appropriate to develop the software capability to meet the obligations under section 4.11.3 of Chapter 8 in advance of this assessment. Further, the IMO has received no requests from TR participants to make implementation of the software required to meet the requirements of section 4.11.3 a priority.

As noted above, in absence of the above software capability, the market rules currently require any unsold yearly product transmission rights from a long-term auction to be offered in a series of long-term-sub auctions as a monthly product, in accordance with section 4.11.2. The IMO's experience to date in operating the TR market is that virtually all TRs offered as a yearly product are awarded at each long-term auction. Conducting long-term sub auctions for any residual TRs are deemed by TR participants as providing little benefit to the market while creating an additional administrative burden for the market participant and the IMO. Although the sub-auction process prescribed under section 4.11.3 may provide an additional opportunity for price discovery, if there are no rights available to be auctioned then price discovery is not possible. The IMO's experience to date in operating the Transmission Rights market, which is expected to continue is that even if there were long-term sub-auction rights available for TR participants, is that this market would be very thin. Also, the sub-auction is conducted a long time before the effective date of the TR which means it will be difficult for TR market participants to assess the relative value of TRs so far in advance of the ownership period.

This amendment proposes to remove the requirement for long-term sub-auctions and to prescribe that any unsold long-term transmission rights would, subject to section 4.7 of Chapter 8, then be offered as a monthly right in the applicable short-term auction in accordance with section 4.10. Section 4.7 articulates how the IMO forecasts the transmission transfer capability which in turn determines how many transmission rights can be offered in any TR auction. This proposed change is consistent with the intent of the original market rule in Chapter 8 section 4.11.3, made by the Minister of Energy in April 2000, which obligates the IMO to offer the yearly product once (on a quarterly basis) and leaves any unsold TR quantities for subsequent short-term auctions.

PART 4 – PROPOSED AMENDMENT

4.11 Long-Term Auctions

- 4.11.1 The first *long-term transmission rights* shall commence one month following the availability of the first *short-term transmission rights*. Following the initial *long-term auction*, the *IMO* shall thereafter conduct a *long-term auction* at least thirty days but not more than ninety days prior to the beginning of each subsequent quarter.
- 4.11.2 Each ~~of the first three~~ *long-term auctions* conducted by the *IMO*; ~~shall consist of four sub-auctions as follows:~~
- 4.11.2.1 ~~one sub-auction~~ shall offer *transmission rights* that are valid for a period of one year, commencing on the first day of the quarter immediately succeeding the quarter in which the ~~sub~~ auction occurs; and
- 4.11.2. ~~Any residual transmission rights from a long-term auction shall, subject to section 4.7, be offered as short-term transmission rights in the manner described in section 4.10. the remaining three sub-auctions shall offer transmission rights that are valid for one of the three months in the quarter immediately succeeding the quarter in which the sub-auction occurs.~~
- 4.11.3 Subject to section 4.11.4, ~~the fourth and each subsequent~~ *long-term auctions* conducted by the *IMO* shall offer *transmission rights* having varying periods of validity of one month or more. The periods of validity of the *transmission rights* awarded during such auctions shall be determined on the basis of a simultaneous consideration of the *TR bids* and the *TR offers* submitted in respect of such *long-term auctions* for all possible combinations of months.
- 4.11.4 If the *IMO* cannot, by reason of software inadequacies, implement ~~the fourth and any subsequent~~ *long-term auctions* so as to offer *transmission rights* having varying periods of validity in excess of one month, the *IMO* shall continue to conduct ~~long-term auctions~~ *sub-auctions* in the manner described in section 4.11.2 until such time as the software inadequacies have been rectified.
- 4.11.5 ~~The sub-auction referred to in section 4.11.2.1 and e~~ Each *long-term auction* referred to in section 4.11.2 and 4.11.3 shall consist of multiple rounds. In each case:
- 4.11.5.1 the number of rounds shall be determined by the *IMO* on the basis of the *IMO's* assessment of the appropriate balance between providing *TR participants* with opportunities for price discovery and the

administrative burden on the *IMO* and *TR participants* of conducting varying numbers of rounds;

4.11.5.2 each round shall be conducted independently of all others;

4.11.5.3 *TR market clearing prices* shall be determined for each round; and

4.11.5.4 *transmission rights* shall be awarded in each round on the basis of the *TR market clearing prices* determined for that round.

4.11.6 [Intentionally left blank]~~Each sub-auction conducted by the *IMO* pursuant to section 4.11.2.2 shall consist of a single round.~~

PART 5 – IMO BOARD COMMENTS



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

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|--|------------------|
| Identification No.: MR-00223-R02 | |
| Subject: Transmission Rights | |
| Title: Changes to Transmission Rights Market –TR Auction Periods | |
| Nature of proposal (please indicate with X): ___ Alteration ___ <input checked="" type="checkbox"/> Deletion ___ Addition | |
| Chapter: 8 | Appendix: |
| Sections: 4.13 | |
| Sub-sections proposed for amending: 4.13.4 | |

PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00223-R00

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For further information on the explanation for the proposed amendment please refer to MR-00223-R01.

This section makes reference to sub-auctions that are to be eliminated under MR-00223-R01. Consequential to the market rule amendments proposed in MR-00223-R01 there is need to delete subsection 4.13.4 of chapter 8.

PART 4 – PROPOSED AMENDMENT

- 4.13.4 ~~[Intentionally left blank]A *TR bid* or a *TR offer* submitted in a sub-auction referred to in section 4.11.2 cannot be contingent on the acceptance of another *TR bid* or *TR offer* submitted in the same or a different sub-auction.~~

PART 5 – IMO BOARD COMMENTS