



Market Rule Amendment Submission

This form is used to request an amendment to, or clarification of, the *Market Rules*. Please complete the first four parts of this form and submit the completed form by email or fax to the following:

Email Address: Rule.Amendments@IESO.ca
Fax No.: (416) 506-2847 Attention: Market Rules Group
Subject: *Market Rule Amendment Submission*

All information submitted in this process will be used by the *IESO* solely in support of its obligations under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, the *Market Rules* and associated policies, standards and procedures and its licence. All submitted information will be assigned the *confidentiality classification* of “public” upon receipt. You should be aware that the *IESO* will *publish* this *amendment submission* if the *Technical Panel* determines it warrants consideration and may invite public comment.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the *Market Rules*.

PART 1 –SUBMITTER’S INFORMATION

Please enter contact information in full

Name: IESO staff on behalf of the Market Pricing Working Group	
(if applicable) <i>Market Participant / Metering Service Provider No.</i> ¹ :	<i>Market Participant Class: N/A</i>
Telephone: 416-506-2801	Fax: 416-506-2847
Email Address: rule.amendment@IESO.ca	

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: Administrative Pricing		
Title: Additional Compensation for Dispatchable Loads under Administrative Pricing		
Nature of request (please indicate with X): <u>X</u> Alteration __ Deletion __ Addition __ Clarification		
Chapter: 7	Appendix:	Sections: 8.4A
Sub-sections proposed for amending/clarifying :		

¹ This number is a maximum of 12 characters and does not include any spaces or underscore.

PART 3 – DESCRIPTION OF THE ISSUE

Provide a brief description of the issue and reason for the proposed amendment. If possible, provide a qualitative and quantitative assessment of the impacts of the issue on you and the *IESO-administered markets*. Include the Chapter and Section number of the relevant market rules.

The IESO Market Pricing Working Group has made a recommendation concerning additional compensation for dispatchable loads during administrative pricing events that last longer than 48 intervals (4 hours). As described in their recommendation within the attachment:

“The IESO Market Pricing Working Group is a stakeholder forum established to discuss, analyze, and document concerns and issues related to the determination of prices in the IESO-administered markets, and to provide advice and recommendations on potential solutions to specific pricing issues.

Advice and recommendations of the Market Pricing Working Group as well as other materials developed in the course of the Working Group’s deliberations are used as inputs into the IESO’s broader stakeholdering process and to inform IESO decisions, including decisions of the IESO Board of Directors and IESO Technical Panel.”

The Working Group recommends that dispatchable loads be compensated in circumstances where, as a result of following an IESO dispatch instruction to consume¹, the dispatchable load incurs a higher energy cost than it was willing to pay based on its bid price. Under the existing market rules, compensation to dispatchable loads is restricted to situations where a dispatchable load receives and follows IESO dispatch instructions that require running (load displacing) generation equipment connected to the dispatchable load facility. In this case, the dispatchable load may be eligible – subject to applicable materiality limits - for additional compensation in relation to the fuel or other variable costs for that generation. The existing market rules do not recognize that market participants may incur other than generation related costs.

The Market Pricing Working Group is recommending that compensation be extended to cover this broader circumstance. They consider three key questions and make recommendations on each as described below.

- 1) What are the circumstances in which dispatchable loads should and should not be eligible for additional compensation under administrative pricing?

“The Working Group recommends that dispatchable loads should be eligible for additional compensation under administrative pricing in a manner analogous to that currently afforded to dispatchable generators. Subject to materiality limits, dispatchable loads should be compensated for certain provable “out of pocket” costs (with their bid prices serving as a proxy for those costs), but should not be compensated for foregone opportunities. In circumstances where the market has been suspended and where, consequently, no bid is available to determine the eligible additional compensation amount, a historical bid benchmark should be used in proxy.”

- 2) Who should pay the costs of any additional compensation that may be provided to loads?

“The working group recommends that additional compensation paid to dispatchable loads should be recovered from all loads. This may be accomplished in a manner similar to that currently used

¹ They may be dispatched on to consume as a result of an incorrect low market price that is later administered above their bid price.

PART 3 – DESCRIPTION OF THE ISSUE

to recover the costs of additional compensation paid to dispatchable generators in the IESO-administered market.”

3) Should non-dispatchable loads be eligible for additional compensation?

“The working group recommends that only dispatchable loads be eligible for additional compensation under administrative pricing. This would be comparable treatment to that of non-dispatchable generators under the IESO Market Rules.”

The Working Group comprises members from a number of sectors as described in page 1 of the attachment. No member was against the recommendations, which are made in principle. Although some members abstained from voting for the reasons described in the attachment.

A more complete description of the key questions and accompanying recommendations, as well as the range of options considered is described in the attachment, “Recommendation for Issue 28, Additional Compensation under Administrative Pricing, Document #28-2”. The paper on which this recommendation is based may be found at the following web site.

http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2005Feb2_Iss28DiscussOptPaper.pdf

The Working Group suggests that bid prices be used as a proxy for determining compensation amounts, and that compensation amounts be subject to materiality limits. This is judged to be a reasonable and practical approach since bid prices are currently used in determining congestion management settlement credit payments for dispatchable loads and since compensation for dispatchable generators also is subject to materiality limits as set out in the applicable market manual.

PART 4 – PROPOSAL (BY SUBMITTER)

Provide your proposed amendment. If possible, provide suggested wording of proposed amendment.

Section 8.4A, Administrative Pricing and Corresponding Market Schedules – Revised, of Chapter 7 should be amended to enable the recommendations of the Market Pricing Working Group.

PART 5 – FOR IESO USE ONLY

Technical Panel Decision on Rule Amendment Submission	
MR number: MR-00292	
Date submitted to Technical Panel: March 17, 2005	
Accepted by Technical Panel as: <input checked="" type="checkbox"/> General ___ Urgent ___ Minor (please indicate with X)	Date: March 22, 2005
Criteria for acceptance: It identifies an error or inconsistency within the market rules. Adopting the recommendation would correct an inconsistency within the rules by affording dispatchable loads analogous treatment during administrative pricing events as dispatchable generators.	
Priority: Medium	
Criteria for assigning priority: While the issue is not pervasive as the events contemplated by the amendment submission have a low probability of occurring, correcting the inconsistency appears feasible and is likely to be generally acceptable.	
Not accepted (please indicate with X):	
Clarification/interpretation required (please indicate with X):	
Technical Panel minutes reference: IESOTP 160-1	
Technical Panel Comments:	

RECOMMENDATION FOR ISSUE 28

ADDITIONAL COMPENSATION UNDER ADMINISTRATIVE PRICING

Document #28-2

The IESO Market Pricing Working Group (MPWG) is a stakeholder forum established to discuss, analyze, and document concerns and issues related to the determination of prices in the IESO-administered markets, and to provide advice and recommendations on potential solutions to specific pricing issues.

Advice and recommendations of the Market Pricing Working Group as well as other materials developed in the course of the working group's deliberations are used as inputs into the IESO's broader stakeholdering process and to inform IESO decisions, including decisions of the IESO Board of Directors and IESO Technical Panel.

The following recommendations are made in principle. The working group recognizes that if this recommendation is adopted by the IESO, further consultation and consideration with respect to implementation details and feasibility may be required.

Working Group members from the following sectors participated in the polling of this recommendation:

Yes - Dispatchable Load	No - Distributor	Yes - Dispatchable Generator
Yes - Non-dispatchable Load	Yes - Transmission	Yes - Non-dispatchable Generator
No - Residential	Yes - Wholesaler/Retailer	

A. Background

Eligibility of dispatchable loads for additional compensation under administrative pricing (e.g. where administered prices extend beyond 48 intervals) is currently restricted to situations where a dispatchable load receives and follows IESO dispatch instructions which require running (load displacing) generation equipment connected to the dispatchable load facility. In this case, the dispatchable load may be eligible – subject to applicable materiality limits – for additional compensation in relation to the fuel or other variable costs for that generation.

IESO stakeholders have expressed interest in revisiting this restriction. For instance, the issue of additional compensation for loads has been recorded in the IESO Participant Issues Log (as issue #924 – January 21, 2004) and has been discussed in the IESO Market Pricing Working Group (August, December 2004).

In February 2005, the IESO Market Pricing Working Group reviewed a discussion paper prepared by IESO staff (attached along with this document and available at: http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2005Feb2_Iss28DiscussOptPaper.pdf) which addressed the issue of additional compensation for loads under administrative pricing and outlined the following three key questions for the working group's consideration:

- i. What are the circumstances in which dispatchable loads should and should not be eligible for additional compensation under administrative pricing?
- ii. Who should pay the costs of any additional compensation that may be provided to loads?
- iii. Should non-dispatchable loads be eligible for additional compensation?

To aid the Market Pricing Working Group in developing its recommendations, the discussion paper offered “strawman” options to each of these questions.

B. Options Considered

Options considered in view of the above questions are as follows, and are described in greater detail in the attached discussion paper:

• Question 1: “Dispatchable Loads Eligible”?

- Option 1-1: Yes: where, as a result of following an IESO dispatch instruction to consume, the dispatchable load incurs a higher energy cost than it was willing to pay based on its bid price
- Option 1-2: Only for load-displacement generation costs incurred (status quo)

• Question 2: “Who Pays”?

- Option 2-1: Loads only
- Option 2-2: Generators only
- Option 2-3: Loads and Generators
-

• Question 3: “Non-Dispatchable Loads Eligible”?

- Option 3-1: Non-dispatchable loads not eligible
- Option 3-2: Yes, under circumstances analogous to those described in Option 1-1

C. Recommendations of the Market Pricing Working Group

1. What are the circumstances in which dispatchable loads should and should not be eligible for additional compensation under administrative pricing?

The working group recommends that dispatchable loads should be eligible for additional compensation under administrative pricing in a manner analogous to that currently afforded to dispatchable generators. Subject to materiality limits, dispatchable loads should be compensated for certain provable “out of pocket” costs (with their bid prices serving as a proxy for those costs), but should not be compensated for foregone opportunities. In circumstances where the market has been suspended and where, consequently, no bid is available to determine the eligible additional compensation amount, a historical bid benchmark should be used in proxy. This recommendation corresponds to option 1-1 outlined on page 6 of the attached discussion paper.

Any work done by the IESO in this matter should be done prudently and within the existing IESO budget.

- **Impacts of Recommendation:**

- **Participant Impact:** Would entitle dispatchable loads that responded to IESO dispatch instructions to additional compensation, where appropriate, under administrative pricing.
- **Market Impact:** Would effect greater symmetry in the treatment of dispatchable generators and dispatchable loads with respect to additional compensation thereby supporting the principle of fairness in the market.
- **IESO Impact:** Would require amendments to the IESO Market Rules. Would require the development of ongoing administrative, monitoring, and audit processes. Changes to IESO software and other IT tools may also be required.
- **Other Impacts:** It is assumed that all dispatchable load market participants would comply with IESO dispatch instructions. As such, no impact on reliability or quality of service is expected. Paying additional compensation to dispatchable loads would result in additional uplift payments.

- **Dissenting and Abstaining Views of the Market Pricing Working Group:**

	Sector Member	Reason:
Against:		
Abstain:	A Dispatchable Load and a Non-Dispatchable Load.	Was not issued instruction to participate in the polling of this question.

2. Who should pay the costs of any additional compensation that may be provided to loads?

The working group recommends that additional compensation paid to dispatchable loads should be recovered from all loads. This may be accomplished in a manner similar to that currently used to recover the costs of additional compensation paid to dispatchable generators in the IESO-administered market. This recommendation corresponds to option 2-1 outlined on page 8 of the attached discussion paper.

- **Impacts of Recommendation:**
 - **Participant Impact:** Would result in additional uplift payments.
 - **Market Impact:** Would continue existing practice of allocating costs of additional compensation payments to loads.
 - **IESO Impact:** Would require amendments to the IESO Market Rules. May require changes to settlement tools. May also require change to settlement processes.
 - **Other Impacts:** No expected impact on reliability or quality of service.

- **Dissenting and Abstaining Views of the Market Pricing Working Group:**

	Sector Member	Reason:
Against:		
Abstain:	a. A Dispatchable Load and a Non-Dispatchable Load; b. A Non-Dispatchable Generator	a. Was not issued instruction to participate in the polling of this question. b. “This recommendation would allocate additional charges to non-dispatchable loads (and their consumers), who would receive no benefits of improved reliability or quality of service and who have not participated in these consultations”.

3. Should non-dispatchable loads be eligible for additional compensation?

The working group recommends that only dispatchable loads be eligible for additional compensation under administrative pricing. This would be comparable treatment to that of non-dispatchable generators under the IESO Market Rules. The rationale for this recommendation is outlined in option 3-1 on pages 8 and 9 of the attached discussion paper.

- **Impacts of Recommendation:**
 - **Participant Impact:** No expected impact. Non-dispatchable entities continue to be ineligible for additional compensation under administrative pricing.

- **Market Impact:** No expected impact as no changes proposed.
- **IESO Impact:** No expected impact as no changes proposed.
- **Other Impacts:** No expected impact on reliability or quality of service.

- **Dissenting and Abstaining Views of the Market Pricing Working Group:**

	Sector Member	Reason:
Against:		
Abstain:	<p>a. A Dispatchable Load and a Non-Dispatchable Load;</p> <p>b. A Non-Dispatchable Load</p>	<p>a. Was not issued instruction to participate in the polling of this question.</p> <p>b. "It is my opinion that for those price responsive load that can demonstrate price response activities during administrative pricing period; they should be compensated. I agree for all other non-dispatchable load, they should not be compensated. Since the survey question does not differentiate price response load from non-price response load, I abstained".</p>