

Memorandum

To: Inter-Jurisdictional Trading Standing Committee
From: IESO Market Rules Group
Date: May 24, 2012
Re: MR-00395: Congestion Management Settlement Credits – Limiting Constrained Off CMSC Payments to Imports into Designated Chronically Congested Zones

The IESO is proposing a market rule amendment in which market participants who are offering to inject energy over an intertie into a designated chronically congested zone, as defined in the applicable market manual, shall not be eligible for constrained off congestion management settlement credits (CMSC) where the import transaction is constrained off in the final pre-dispatch run prior to the dispatch hour. At present the chronically congested zones will be defined as those zones designated as constrained off watch zones (COWZ).

The IESO is proposing this amendment as we do not believe that CMSC payments to imports offering into a chronically congested zone are consistent with the original intent of constrained off CMSC payments to generators and imports.

In February 2002, the Market Surveillance Panel (MSP) published a discussion paper intended to review CMSC payments.

It is the IESO's belief that the reasons for justification of constrained off payments are either not applicable or do not provide sufficient value with respect to imports into a chronically congested area.

The reasons and rationale are as follows:

Constrained off payments keep wholesale prices lower than they would otherwise be;

It is the IESO's belief that imports into a chronically congested area are more often inappropriately lowering the wholesale price lower as there is little likelihood that they will flow. In addition, it is possible that these imports may be offering at a much lower price than MCP in an effort to attract constrained off CMSC.

Constrained off payments enhance reliability by maintaining critical plant in the marketplace, even though such plant may be needed only in certain periods;

This justification is not applicable to imports, but does provide sufficient rationale to continue to pay warranted CMSC to internal generation.

Constrained off payments, together with the corresponding constrained on payments, provide information about transmission bottlenecks that is helpful in identifying areas for investment;

In a zone which has been chronically congested since market opening the need for investment is evident and although it is important to learn where lower priced energy may be available to the Ontario consumers the value of that signal is lost over time.

Constrained off payments provide certain operational benefits to the marketplace with respect to incenting compliance with dispatch instructions;

This justification is not applicable to imports due to the hourly intertie scheduling process in place in Ontario.

Constrained off payments compensate for departures from optimality of the configuration of the existing generation and transmission endowment in the province.

This justification applies to domestic generation only.

Under the proposed amendment, the IESO will continue to pay CMSC to internal generation that is constrained off and to any import transactions which are constrained off manually after the final run of pre-dispatch. The IESO feels that there is a fundamental difference between an import transaction that is constrained off in the final pre-dispatch schedule and a generator or import transaction which is constrained off in real-time (by the dispatch schedule or manually through a TLRi code). Where an import transaction is constrained off in the last pre-dispatch run prior to the dispatch hour there is sufficient time for the market participant to offer this energy into an alternative market, whereas import transactions and generators constrained off in real-time have no further alternatives for the constrained off supply.

It is proposed that the designation of a chronically congested zone be defined in a Market Manual and at present that definition will refer to a COWZ designation.

Proposed Schedule

The IESO requests that market participants submit comments regarding this proposed rule amendment following the scheduled May 31st IJTSC meeting. An amendment submission MR00395-Q00 will be presented to the Technical Panel at its June 13th meeting, in which they will be requested to vote that this rule amendment warrants consideration. The rule is targeting the September 7th IESO Board meeting for approval.