

Exemption Applicant's Plan

Submissions in Support of Exemption Application

June 7, 2023

Background:

The IESO is seeking an exemption that would effectively allow long-term and short-term Transmission Rights (TRs) auctions to be cancelled to facilitate the transition from the current market to the renewed market. TRs are auctioned to market participants for the applicable withdrawal and injection zones as either long-term TRs or short-term TRs:

- Long-term (LT) TRs: valid for all hours of all days for one year
- Short-term (ST) TRs: valid for all hours of all days for one month

The market rules state that the IESO must provide the TR ownership period, TR auction schedule and TR settlement treatment for every TR auction conducted.

Under the current market design, TRs are settled using the real-time intertie congestion price (ICP) to provide a hedge for intertie congestion costs that occur in real-time. Under the future market design, the settlement of TRs will use the day-ahead market external congestion price to provide market participants (MPs) with the ability to hedge day-ahead external congestion. In the future market, MPs will be unable to use TRs to hedge external congestion costs that occur in the real-time market.

Without an exemption, there would be a transitional period where TRs that would be sold would have an ownership period that spans the current market and the future market, with each market having their own respective TR settlement (hereafter referred to as "Transitional TRs"). A single TR that has two different settlements creates challenges for both market participants who need to determine the value of such a TR, and for the IESO who needs to have the tools capable of settling such TRs.

While the month and year of the Market Renewal Program (MRP) go-live has been set, the specific date has yet to be determined, which will impact the TR auctions affected by the transition, and it would not be possible to retroactively adjust the TR ownership period after the auction. Depending on the specific auction during the transitional period, final market rules dictating the future TR settlement may not be in place, or may be subject to change

after Transitional TRs would have been auctioned. The resulting uncertainty may result in market participants not having the information they require to determine a bid amount, resulting in inefficient market outcomes and increased risk for market participants. For this reason, the IESO believes it is best to cancel those impacted auctions to provide a fair and transparent TR market.

Description of Relevant IESO Market Rules:

The relevant Market Rules from which an exemption is sought are Chapter 8, section 4.10.1 and section 4.11.1.

- MR Ch 8. Section 4.10.1: The IESO shall conduct a short-term auction between the 1st and 15th day of each month in which transmission rights valid for the following month shall be available.
- MR Ch 8. Section 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 IESO 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.

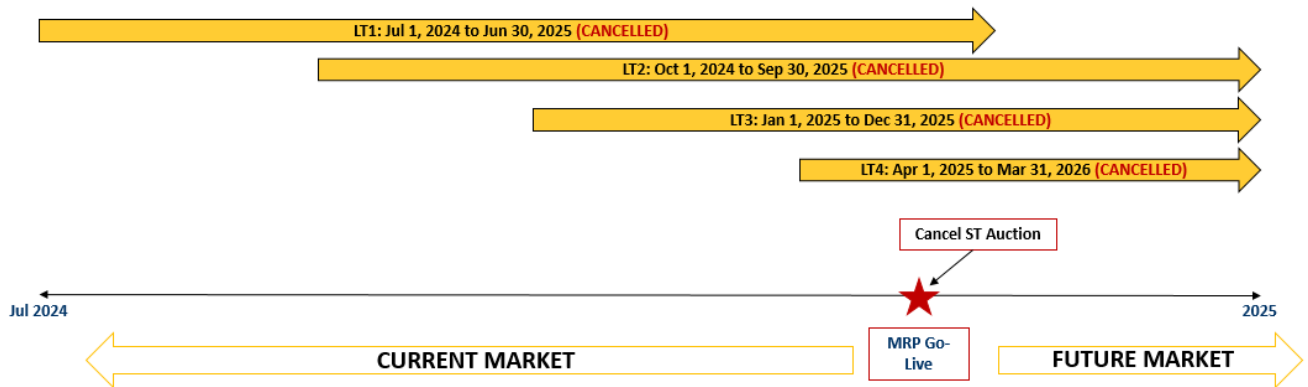
These market rules require the IESO to administer a short-term and long-term TR auctions as per the specified time intervals. Following the MRP Commencement Date, the exemption shall apply to the market rules which provide the same obligations.

Exemption Requirements:

The IESO is seeking a temporary exemption from the Market Rules Chapter 8 sections 4.10.1 and 4.11.1 in order to exempt itself from the requirement to conduct TR auctions for a sufficient period of time to ensure that the IESO will not create Transitional TRs.

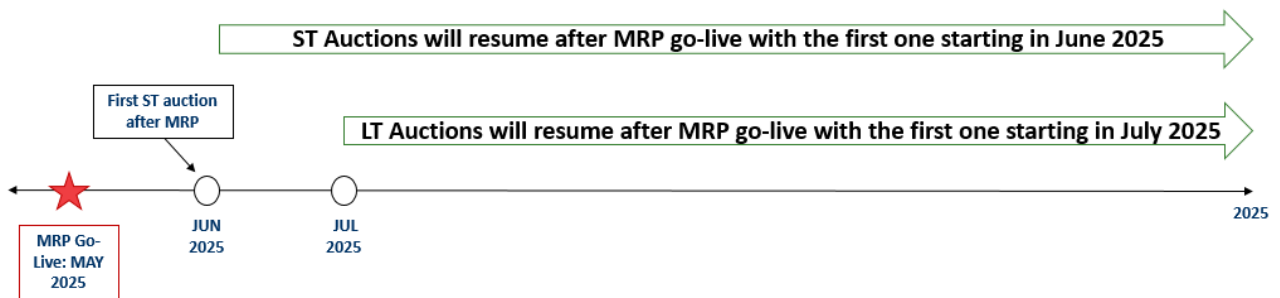
The IESO will still conduct TR auctions during the exemption period for those TR auctions that would not result in the creation of Transitional TRs, that is, any auctions where the ownership period is exclusively in the current market or exclusively in the future market.

The following diagram illustrates an example of the long-term and short-term TR auctions that would be cancelled using the expected MRP commencement date of May 2025:



The IESO is seeking an exemption from the date of application until two months after the MRP commencement date, following which the IESO will return to conducting TR auctions as per the current prescribed time intervals in the market rules.

The diagram below illustrates when long-term and short-term TR auctions will resume after the expected MRP commencement date of May 2025:



Reasons for Exemption Application:

The IESO is requesting this exemption because it provides a low cost and administratively efficient solution that avoids conducting TR auctions that sell Transitional TRs. Transitional TRs would create settlements issues that would require specific short-lived, 'throw-away' tool enhancements to manage. Further, should such auctions be conducted, TR market participants would not have the information they require to determine a reasonable bid amount, resulting in inefficient market outcomes and increased risk for participants. Additionally, if the TR market rules change from versions that were presented to stakeholders, or received provisional approval, it may result in the IESO having to refund any TR auction revenues collected, or make out-of-market payments for any TR settlement disputes. Other jurisdictions such as CAISO and ERCOT have undertaken similar initiatives to avoid having Transitional TRs.

No IESO tool changes would be required in order to implement the requested exemption. An exemption also provides flexibility to continue to conduct TR auctions for TRs whose ownership periods do not overlap the current and future market. The proposed exemption has also been presented to external stakeholders in an engagement session prior to this application with no material feedback provided.

Impact of Exemption on Market Participants in the IESO-Administered Markets:

If the exemption is granted, transitional TRs will not be auctioned off to market participants. The IESO does not expect the exemption to materially impact market participants given that any LT TRs that would have been auctioned at a cancelled LT TR auction, will be auctioned at the next respective ST TR auction. It's expected that at most there would be two months where no ST auctions would be held, hence no TRs would be available in the market for those months.

For those months where no TRs are administered, market participants will not be able to hedge intertie congestion. From a system reliability perspective, the difference in the failure rate for export intertie transactions with TRs in comparison to export intertie transactions without TRs in the current market was ~2%. No discernible difference was noted for import transactions, as export congestion occurs more frequently than import congestion. It is unknown whether this same failure rate will carry forward into the new market, but the IESO has no reason to believe it would be worse. The difference in failure rate observed in the current market also may not translate to the future real-time market given that market participants have more incentive to offer and bid in the new day-ahead market under the new provisions of MRP, and will be entering into a binding financial position with respect to their intertie schedules.

The IESO does not expect an increase in cost or have an adverse effect on the Transmission Rights Clearing Account (TRCA). There is no risk of depleting funds in the TRCA when no TRs are sold for a given month considering that there would be no subsequent TR payouts to be made. Any residual congestion rents collected in those months without TRs would be disbursed as per the normal TRCA disbursement procedures which is not changing post MRP.