



Independent Electricity System Operator

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DELIVERED BY E-MAIL TO: Michael.Lyle@ieso.ca

RE: MR-00468R00 – Adjustments to Intertie Flow Limits

Dear Mike,

I write further to your letter of March 7, 2022 regarding the Technical Panel's consideration of the proposed market rule amendment referenced above. We appreciate the additional time you have given us to consider this matter.

The Technical Panel is aware of the investigation by the Market Assessment and Compliance Division (MACD) into whether the IESO's incorporation of internal transmission constraints when determining the market schedules complied with the existing market rules prescribing the methodology for limiting intertie flows. This activity is pursuant to MACD's responsibilities and authorities in enforcing the Market Rules, including rules which the IESO must comply with. I understand the Technical Panel's primary question to be whether MACD's final determination in this matter may assist the Panel in its role in advising the IESO Board as to whether proposed market rule amendments meet the final design intent of the proposed change.

My determination has been made by way of an issuance of a Notice of Non-Compliance and an Order imposing a financial penalty on the IESO, on July 6, 2022. This determination may not be directly responsive to the question the Technical Panel must consider, given that my consideration of the design intent relates most directly to the existing rules rather than the

proposed new rules. Nonetheless, MACD can offer the following observations, which we hope may be of assistance to the Technical Panel as it carries out its mandate.

First, I will lay out the fundamental aspects of the determination. In particular, I have determined that the IESO breached the Market Rules by imposing intertie flow limits based on internal transmission constraints. This violates sections 4.4.4.2 and 4.5.1.1 of Chapter 7 as well as section 7.5.1 of Appendix 7.5 of the Market Rules.

Consequently, I also considered a series of factors, prescribed by the Market Rules, when the assessment of a financial penalty is determined to be appropriate, as it is in this case. Among these factors, the most salient were:

- The manner by which the IESO took the action, including the insufficient clarity of purpose and authority underpinning it;
- That the action has had a material impact on the IESO-administered markets, including actual and potential harms to some market participants, impacts on the Transmission Rights markets, and other market efficiency impacts, that would otherwise not have manifested had the IESO not taken the unauthorized action; and
- That the action did not have any material impact on the IESO's ability to maintain reliability of the IESO-controlled grid.

In total, my review of the matter has led to the imposition of a financial penalty of \$10,000, a moderate amount consistent with MACD's practice when sanctioning the IESO, in consideration of its non-profit status. In addition, a letter of non-compliance was issued, and a posting of these findings will be made on the IESO's website.

While some of these findings may indirectly relate to the design intent of the proposed market rule amendments as it has been variably stated by the IESO since the rule amendments were initiated, such as the reliability arguments, I should make it clear that MACD's assessment of the matter did not consider the overall benefit to market efficiency or other elements of market design which may be within the current ambit of the Technical Panel's review. For example, MACD did not evaluate whether the phenomenon of constrained-on imports to support exports in the circumstances the IESO was confronting in the Northwest was efficient or sensible. The MACD assessment was strictly focussed on whether the new intertie limits structure was authorized by the Market Rules and, if not, what were the circumstances and impacts of that action. MACD does not assess whether any action, by market participants or the IESO, are of net benefit to the sector even if the Rules do not permit the action.

The MACD determination was arrived at pursuant to an investigative and assessment process whereby MACD and the IESO shared information regarding their respective views to date in respect of this matter. MACD also interviewed some market participants to assist its assessment of actual and potential harm arising from the IESO's action.

My determination is subject to review and challenge by the IESO, which may avail itself of the Market Rules' dispute resolution process if it so chooses. As such, this matter is not fully concluded.

I trust that this will be of assistance to the Technical Panel in its deliberations on the market rule amendments.

Sincerely,

Glenn McDonald
Vice President, Market Assessment & Compliance Division
Independent Electricity System Operator