



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00284-R00		
Subject:	Reliability Compliance		
Title:	Include Reliability Impact as Criterion for Determining Financial Penalties		
Nature of Proposal:	<input type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	3	Appendix:	
Sections:	6.6.7		
Sub-sections proposed for amending:	6.6.7.10A (new)		

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel Review	22 August 06
2.0	Revised to reflect Technical Panel Comments and post for stakeholder review	05 September 06
3.0	Revised to reflect Stakeholder written submissions; Submit for Technical Panel Review and Vote	18 October 06
4.0	Recommended by Technical Panel and submitted to IESO Board for approval	23 October 06
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 *IESO-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 *IESO-administered markets*.

Summary

This amendment proposes to more explicitly identify the consequences of non-compliance with reliability standards and the Ontario power system restoration plan. The specific proposed rule amendments are:

1. Include the impact of a market rule breach on system reliability among the criteria for fixing the amount of a financial penalty.
2. Include the impact of a market rule breach on system reliability among the criteria for imposing sanctions in excess of \$10,000.
3. Introduce a maximum financial penalty of \$1,000,000 for breaches of the market rules.
4. Require market participants to operate in a manner consistent with their accountabilities within the Ontario power system restoration plan.

These amendments would ensure that breaches of the market rules that have an impact on reliability are treated equally with breaches that have an impact on market operations. The introduction of a maximum financial penalty would address stakeholder concerns regarding the existing unlimited liability facing market participants for breaches of the market rules.

These changes are consistent with industry practice and recognize the potentially significant impact to the integrated power system of a reliability standard violation.

Background

Following the August 14, 2003 blackout, the North American electricity industry conducted a review of reliability standards and practices. This review was conducted by a joint U.S.-Canadian task force, which was established to determine the causes of the blackout and ways to reduce the possibility of future outages. The task force concluded that violations of reliability standards were among the most significant causes of the event. At that time, compliance with reliability standards in the United States was, and remains, voluntary. As a result, NERC and the industry have adopted a philosophy that compliance with reliability standards must become mandatory and subject to compliance action where breaches of the standards occur. This requirement has been in place within the IESO-administered markets since 2002, and is being implemented in the United States through the passage of the Energy Policy Act of 2005. The Act authorizes the creation of an electricity reliability organization (ERO) spanning North America, with Federal Energy Regulatory Commission (FERC) oversight in the United States.

In support of the US-Canada Blackout Taskforce recommendations and the subsequent development of the ERO, the IESO conducted a review of the rules and practices in place in Ontario. Although compliance with reliability standards is already mandatory and enforceable in Ontario, the IESO has identified a need for the rules to more explicitly define what constitutes a severe breach of the market rules. Consistent with this theme, a need has been identified to equate breaches that severely impact

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

reliability with breaches that severely impact market operations. Presently, the market rules do not explicitly include reliability impacts among the criteria for imposing penalties in excess of \$10,000. Breaches that negatively impact reliability would not necessarily negatively impact market operations. In addition, the IESO has identified the need to explicitly require market participants to operate in a manner consistent with the Ontario power system restoration plan.

NERC recognizes the international character of the bulk electrical system. While the ERO will be subject to regulatory oversight by FERC in the United States, it is expected to receive comparable recognition from regulatory authorities in Canada. Compliance with reliability standards in Ontario will continue to be enforced by the IESO. The proposed changes would result in an IESO compliance model that is consistent with NERC, although not identical. The IESO strongly supports NERC's efforts and believes that a consistent approach to compliance in North America would benefit Ontario.

Discussion

The IESO market rules obligate market participants to comply with reliability standards. Breaches of the market rules can result in financial penalties. The market rules provide the criteria for determining the level of financial penalty imposed for breaches of the rules. The market rules do not specifically identify reliability impacts among the criteria for determining these financial penalties.

The market rules should be amended to explicitly include actual and potential reliability impacts among the criteria for determining financial penalties (refer to proposed section 6.6.7.10A). This explicit reference would improve transparency by clearly outlining the criteria to be considered when determining financial penalties.

Including potential impacts in this provision is appropriate in cases where a significant reliability standard is breached. An example would be a case where a participant operated for an extended period of time without protections in service and without notifying the IESO. Although there may be no actual impact resulting from the breach, the system would have been at significant risk throughout this period. The offending party should not avoid a penalty because no adverse reliability impact occurred.

PART 4 – PROPOSED AMENDMENT**6.6 Non-compliance Letters and Financial Penalties**

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6.6.7 In fixing the amount of the financial penalty within the ranges described in the table set forth in section 6.6.6, the *IESO* shall have regard to:

- 6.6.7.1 the circumstances in which the breach occurred;
- 6.6.7.2 the severity of the breach;
- 6.6.7.3 the extent to which the breach was inadvertent, negligent, deliberate or otherwise;

- 6.6.7.4 the length of time the breach remained unresolved;
- 6.6.7.5 the actions of the *market participant* on becoming aware of the breach;
- 6.6.7.6 whether the *market participant* disclosed the matter to the *IESO* on its own or whether it was prompted to do so;
- 6.6.7.7 any benefit that the *market participant* obtained or expected to obtain as a result of the breach;
- 6.6.7.8 any previous breach by the *market participant* of the *market rules* or of the conditions of its *licence*;
- 6.6.7.9 the impact of the breach on other *market participants*;
- 6.6.7.10 the impact of the breach on the *IESO-administered markets* as a whole;
- [6.6.7.10A the actual or potential impact of the breach on the *reliability of the integrated power system*;](#)
- 6.6.7.11 any sanctions that may be imposed on the *IESO* by a *standards authority* as a result of the breach; and
- 6.6.7.12 such other matters as the *IESO* considers appropriate.

PART 5 – IESO BOARD DECISION RATIONALE

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Nature of Proposal:	<input type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	3	Appendix:	
Sections:	6.6.13		
Sub-sections proposed for amending:	6.6.13, 6.6.13.3		

PART 2 – PROPOSAL HISTORY – REFER TO MR-00284-R00

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

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- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

It is proposed to amend the market rules to explicitly include the impact on reliability among the criteria which allow the IESO to impose sanctions in excess of \$10,000. Financial penalties of this magnitude are appropriate for market rule breaches that severely impact reliability because of the potentially severe impacts of such breaches on the integrated power system and IESO-administered markets. In response to stakeholder written submissions associated with this amendment, it is proposed to introduce an upper limit of \$1,000,000 for sanctions imposed under Chapter 3, section 6.6.13.

Background

Please refer to MR-00284-R00.

Discussion

The IESO market rules obligate market participants to comply with reliability standards. Breaches of the market rules can result in financial penalties. The existing market rules allow for financial penalties up to \$10,000 (Chapter 3, section 6.6.6). The IESO can impose a penalty in excess of \$10,000 for severe violations. The market rules provide the criteria for imposing penalties in excess of the \$10,000 cap. The existing criteria do not specifically include reliability impacts among the criteria for determining these financial penalties.

The market rules should be amended to explicitly include reliability impacts among the criteria for imposing sanctions in excess of \$10,000. This amendment would treat breaches impacting reliability equally to breaches impacting the IESO-administered markets. To avoid exposing market participants to potentially unlimited liability, an upper limit for economic sanctions should be specified. Using the maximum fines allowable under the Ontario Energy Board Act as a guide, it is proposed to limit the sanction exceeding \$10,000 to not more than \$1,000,000 per non-compliance occurrence. Under the Electricity Act and Regulations, market participants have the right to appeal sanctions in excess of \$10,000 to the Ontario Energy Board.

To date, there has been no compliance issue that required IESO Board determination, or fines of \$10,000. This change is required to address the unlikely but possible reliability breach of an extremely impactful and negligent act or omission to act.

PART 4 – PROPOSED AMENDMENT

- 6.6.13 The *IESO* may impose on a *market participant* a financial penalty in excess of the amount otherwise provided for in section 6.6.6 and no greater than \$1,000,000 per occurrence, where:

- 6.6.13.1 the *market participant* has breached a *market rule* while a declaration that the *IESO-controlled grid* is in an *emergency operating state* or a *high-risk operating state* was in effect;
- 6.6.13.2 the *market participant* breached a *market rule* while a declaration that *market operations* have been suspended was in effect;
- 6.6.13.3 the *IESO Board* determines that the impact of the *market participant's* breach of a market rule on either the *IESO-administered markets* or the reliability of the integrated power system is particularly severe; or
- 6.6.13.4 the rate of recurrence of non-compliance by the *market participant* with the *market rules* is of such frequency or duration as to warrant the imposition of a higher financial penalty.

PART 5 – IESO BOARD DECISION RATIONALE

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Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00284-R02		
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Title:	Include Reliability Impact as Criterion for Determining Financial Penalties		
Nature of Proposal:	<input type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	5	Appendix:	
Sections:	11.8.1		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY – REFER TO MR-00284-R00

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Summary

It is proposed to amend the market rules to explicitly include a requirement for market participants to operate in a manner consistent with their accountabilities within the Ontario Power System Restoration Plan. This requirement was identified following an IESO review after the August 14, 2003 blackout.

Background

Please refer to MR-00284-R00

Discussion

The market rules obligate a market participant to operate in a manner consistent with its emergency preparedness plan and restoration attachment. However, the market rules do not explicitly state that market participants must act in a manner consistent with their accountabilities within the Ontario Power System Restoration Plan. This proposal would address this shortcoming by explicitly including this requirement in the market rules.

Since the August 14, 2003 blackout, IESO emergency preparedness efforts have focused on Market Participant training. Experience gained in regular system restoration exercises has highlighted the need for coordinated restoration plans to expedite system restoration. This amendment will align the market rules with this emphasis on coordination.

PART 4 – PROPOSED AMENDMENT

11.8 Enforcement

- 11.8.1 Failure by a *market participant* to take any action required to be taken in, or to act in a manner consistent with, its *emergency preparedness plan*, ~~or~~ its restoration participant attachment, or its accountabilities within the Ontario power system restoration plan shall be deemed to constitute a breach of the *market rules*.

PART 5 – IESO BOARD DECISION RATIONALE

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