




---

## 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](mailto: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: <u>IESO Staff</u>	
(if applicable) <i>Market Participant / Metering Service Provider</i> No. <sup>1</sup> : <u>N/A</u>	<i>Market Participant Class</i> : <u>N/A</u>
Telephone: <u>416 506-2801</u>	Fax: <u>416 506-2847</u>
E-mail Address: <u>rule.amendments@ieso.ca</u>	

### PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: <u>Local Market Power Mitigation</u>	
Title: <u>Clarify Local Market Power Mitigation</u>	
Nature of Request (please indicate with x)	
<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion
<input type="checkbox"/> Addition	<input type="checkbox"/> Clarification
Chapter: <u>7</u> Appendix: <u>7.6</u> Sections: _____	
Sub-sections proposed for amending/clarifying: <u>Various</u>	

<sup>1</sup> 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 current local market power mitigation market rules (Appendix 7.6) provide for the IESO to adjust a market participant's CMSC payment and impose a financial penalty where there has been an abuse of local market power. However, the current market rules do not specifically define "abuse" nor the criteria to be met for CMSC adjustments and financial penalties. Because of the lack of these specific definitions within the market rules, the IESO has, since market commencement, consistently applied the following interpretation of Appendix 7.6:

- The IESO will make a CMSC adjustment, without a financial penalty, where a participant's transaction has failed the initial local market power screens specified in section 1.3 of Appendix 7.6 and the participant's offer/bid prices were not consistent with its costs, including opportunity costs. These screens establish that there was local market power. The participant's degree of knowledge about the situation does not play a role in the IESO decision to adjust CMSC. Using this interpretation and approach, the IESO has recovered approximately \$10 million in CMSC payments associated with over 400 constrained-on or constrained-off events since market commencement.
- For the purposes of deciding if it should impose a financial penalty, the IESO required compelling evidence of market participant intent. The IESO has not imposed a financial penalty, nor yet investigated such a possibility, under Appendix 7.6.

The IESO has described its interpretation and application of Appendix 7.6 in Market Manual 2.12 Treatment of Local Market Power. In each investigation conducted under Appendix 7.6, the IESO ensured that the market participant understood the approach taken. Market participants have accepted the IESO's interpretation and application.

Recently, a market participant challenged the IESO's interpretation and application of Appendix 7.6. The participant argued that Appendix 7.6 could be interpreted to require the IESO to prove intent before adjusting the CMSC, not just for assessing a penalty.

The IESO acknowledges a possible ambiguity in Appendix 7.6. The IESO believes that Appendix 7.6 should be amended to remove that ambiguity and to more clearly define the local market power mitigation regime. The IESO recommends that the amendments be consistent with the IESO's existing interpretation and application, and reflect the experience gained since market opening. The amendments should:

- specify the circumstances and criteria that must be met to permit a CMSC adjustment; and
- remove the references to "abuse" of market power with respect to the CMSC adjustments, thereby removing any implied requirement to establish participant intent.

The IESO believes that applying a financial penalty requires establishing market participant intent. In light of the experience to date, the IESO believes that the financial penalty provision should be removed from the market rules. The monitoring for, and the investigation of, abuse of market power and gaming is within the purview the Market Surveillance Panel under the Electricity Act (sections

**PART 3 – DESCRIPTION OF THE ISSUE**

37(1) and 38(1)) and the OEB By-Law #3 (section 4.1.1), and this is the safeguard given the observed behaviour of market participants to date.

**PART 4 – PROPOSAL (BY SUBMITTER)**

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

Amend Appendix 7.6 to:

- remove characterization of a constrained-on event or constrained-off event as an abuse of market power;
- permit IESO to adjust CMSC payments where:
  - (i) a constrained-on event or constrained-off event fails the initial local market power screens;
  - (ii) the IESO conducts the analysis of the additional considerations specified in section 1.4; and
  - (iii) the participant has had the opportunity to justify but has not been able to justify its bids or offers based on its costs, including opportunity costs.
- expand the additional considerations that the IESO must consider in determining whether or not a CMSC adjustment is warranted to include pricing in neighbouring jurisdictions and opportunity costs for energy-limited resources;
- explicitly identify the criteria to be met for a CMSC payment adjustment;
- remove financial penalties.

**PART 5 – FOR IESO USE ONLY**

*Technical Panel Decision on Rule Amendment Submission:*

MR Number: MR-00295-Q00

Date Submitted to *Technical Panel*: 12 May 05

Accepted by *Technical Panel* as: (please indicate with x)

Date:

General       Urgent       Minor

17 May 05

Criteria for Acceptance:

- a) It identifies ambiguity within the market rules that causes interpretation confusion and future disputes. Interpretations as to what is required in order to mitigate local market power.
- b) It would better enable market to meet market design principle of economic efficiency: generation and suggested changes would result in a more transparent and predictable regime, while maintaining the same effectiveness as has existed since market commencement.

Priority: Medium

Criteria for Assigning Priority:

Local market power mitigation affects all market participants, either directly through adjustment of one's CMSC payment or indirectly through the consequential offsetting settlement adjustments. However, the total dollar impact of the local market power mitigation since market commencement has only been approximately \$10 million. A medium priority is appropriate based on these two factors.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

*Technical Panel Minutes Reference:* IESOTP 163-1

*Technical Panel Comments:*

The Panel noted that due to the complexity of the local market power mitigation regime and market rules, careful consideration will be taken to ensure that the amendment proposal is consistent with the changes suggested in this submission and that the changes in the proposal do not go beyond the scope identified in this submission.