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
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 license. 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: Constellation Energy Group, Gary Wight, Vice President Energy Policy, Michael Kaufmann, Senior Counsel

(if applicable) *Market Participant* / *Metering Service Provider* No.[1]: ______

Market Participant Class: Wholesale Consumer/Seller

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PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: Accounting Treatment of Linked Wheeling Through Transactions vis-à-vis AQEI and AQEW

Title: Linked Wheeling Through Transactions

[1] This number is a maximum of 12 characters and does not include any spaces or underscore.

PART 1 – SUBMITTER'S INFORMATION

Nature of Request (please indicate with x)
☐ Alteration ☐ Deletion ☒ Addition
Chapter 9 Appendix: ______________ Sections: 2.5__________________________
Sub-sections proposed for amending/clarifying: Add: 2.5.4 Linked Wheeling Through Transactions

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*.

Summary

This amendment proposes to clarify the intent of the Market Rule and accounting treatment for linked wheeling through transactions ("linked wheels"). This amendment is necessary to prevent linked wheels from being improperly broken into separate "injection" and "withdrawal" transactions for the purposes of accounting, and consequently being charged for costs that are neither consistent with the intent of certain market charges nor the nature and purpose of these transactions. The IESO is requested to treat linked wheels such that their net hourly adjusted interchange is calculated so that their net impact to Allocated Quantity of Energy Injected (AQEI) or Allocated Quantity of Energy Withdrawn (AQEW) is zero.

A linked wheel allows a market participant to move energy through Ontario from one jurisdiction to another (*e.g.*, from Michigan through Ontario to New York) without the risk of: (1) the energy being retained in Ontario or (2) exposure to the Ontario market price.

Given that the Ontario HOEP is insulated from the effect of linked wheels, certain market charges should not be applied to these transactions (since these charges relate to the cost of securing generation for serving load). Unlike exports of energy, which legitimately contribute to these generation-related costs, linked wheels do not. Linked wheels pay for their system impacts *via* interface congestion costs and other transmission charges (note: certain system conditions scenarios could be hypothesized where internal congestion is aggravated by linked wheels which require re-dispatch, and where linked wheels do not pay this uplift costs. The opposite is also true where linked wheels eliminate the need for re-dispatch and obtain no credit. Lake Erie loop flows also fall into this scenario).

This proposed amendment should be deemed to be urgent as it will "avoid, reduce the risk of or mitigate the effects of an unintended adverse effect of a market rule." *See* section 34.1.4 of the Electricity Act, 1998.

The existing accounting treatment and interpretation of the market rules regarding linked wheels and AQEI/AQEW result in an adverse impact by improperly assessing charges that are not consistent with the intent of the market rules or the nature of linked wheels. This proposed amendment is consistent with the previous market rule interpretations and/or IESO amendments MR_00204 and MR_00315 by which the IESO eliminated **payments** to linked wheel transactions (CMSC and IOG payments). This proposed amendment seeks to eliminate the corresponding **charges** that are currently and improperly

PART 3 – DESCRIPTION OF THE ISSUE

being assessed to linked wheel transactions. Without this amendment, the IESO would for all intents and purposes, be "de-linking" linked wheels for purposes of assigning cost and charges, but "re-linking" the same transactions for purposes of denying them payments. The IESO must redress this anomaly.

Finally, the current interpretation and treatment of linked wheels may be viewed as impermissible rate "pan-caking" by US regulators and discriminatory access to the Ontario Market, in that linked wheels wind up paying twice for the same generation-related services.

Background

Linked wheels
A linked wheel provides a means for a market participant to move energy from one jurisdiction through Ontario to another jurisdiction and ensure that the import energy is not diverted from the market participant's intended customer in the export market.

The linked wheel also provides protection to the market participant against exposure to the Ontario uniform market price. Assuming no congestion, the import leg is paid at the same Ontario price that the export leg is priced, and as long as the import and export leg quantities are the same, the market participant has no net exposure to the Ontario price. If, on the other hand, there is congestion across Ontario, the export leg is priced higher than the import leg, and the linked wheel pays for the "cost" of congestion. Without the linked transaction, were the import energy interrupted for any reason, then the export energy would continue to flow from the Ontario market, and would be charged HOEP until the export bid can be changed by the participant (*i.e.,* the export would flow for a minimum of 2 hours).

Under the market rules, to effect a linked wheel, a market participant is required to:

- Submit an import offer, priced at (-$50/MW), and an export bid, priced at +MMCP (+$2000/MW); and

- Identify the import and export as "linked."

The IESO then separately evaluates the import and export legs of the linked wheel. However, under the existing market rule interpretation, the IESO is required to schedule and dispatch the import and export (including application of constraints) such that both the import and export quantities are equal to the lower quantity that would otherwise have been scheduled and/or dispatched.

The requirements to offer and bid at ±MMCP and to identify the import and export as "linked" are intended to ensure that the import and export legs are "price-takers" and would not be "constrained-off" in real-time (whether for transmission constraints or for Ontario adequacy). The market participant is also signaling that it wants the quantities of the import and export legs of the transaction to always be equal.

A market participant conducting a linked wheel is indifferent to the Ontario price. This indifference to the Ontario price and the matching of the import and export quantities differentiates a linked wheel from an implied wheeling through transaction, which consists of separate (and unlinked) import and export transactions. The import leg of a linked wheel is never truly "imported" into Ontario, and the export leg is never truly "exported" from Ontario – it is simply passing through. Moreover, linked wheels are not considered in the forecast/adequacy plans, and thus do not affect that original pre-

PART 3 – DESCRIPTION OF THE ISSUE

dispatch view and the resulting cost items. Thus, linked wheels are unlike actual imports and exports that do affect the pre-dispatch view and contribute to these identified charges (and are thus correctly contributing towards AQEI/SQEI and AQEW/SQEW).

As such, linked wheels do not modify how the Ontario load was to be served by Ontario generation, and do not cause any deviations from the forecast/adequacy plan. Therefore, linked wheels do not contribute to the cost to serve Ontario load and should not be allocated charges arising from contribution to AQEI or AQEW.

By contrast, the costs of redispatch to allow interface flows are built into the interface congestion price, which the linked wheel properly pays.

Discussion

This amendment proposes to augment Section 2.5 of Chapter 9 to specify that linked wheels are not accounted for as separate imports and exports, but rather, the interchange should be netted each hour such that there is no contribution to AQEI and AQEW.

As noted above, linked wheels are intended to leave a market participant financially indifferent to the Ontario price, being charged for transmission service across Ontario plus the congestion cost. Under the current practice, a linked wheel is counted as AQEI and AQEW resulting in the market participant being improperly charged as though it were serving load in Ontario, either exporting energy solely or importing energy solely. This treatment is not justified and the current interpretation should be modified.

The current interpretation and treatment of AQEI / AQEW has the effect of "pan-caking" uplift and other market support costs related to generation and load to market participants wheeling power through the IESO control area. These costs are already paid by the market participant to the source and sink control areas in proportionate amounts equal to their adjusted net interchange.

Additionally, the current market rules allow for generation resources to net station service load against generation output under Market Rule, Chapter 9, Section 2.1.A.9, effectively netting AQEI and AQEW. These resources can also request a reimbursement of charges which result from AQEW.

PART 4 – PROPOSAL (BY SUBMITTER)

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

2.5 Collection of Interchange Schedule Data

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Linked Wheeling Through Transactions

2.5.4 Notwithstanding any other provision in the *market rules*, the *IESO settlement process* shall use the net *interchange schedule data* for wheeling through transaction where the *market participant* affects the transaction by linking an *energy offer* and *energy bid* under section 3.5.8.2 of Chapter 7, such that the contribution to AQEI and AQEW is zero.

PART 5 – FOR IESO USE ONLY

Technical Panel Decision on Rule *Amendment Submission:* Warrants Consideration

MR Number: MR-00347

Date Submitted to *Technical Panel*: 8 August 2008

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

☒ General ☐ Urgent ☐ Minor 12 August 2008

Criteria for Acceptance:

- It identifies means to better enable the market to satisfy the market design principle of fairness. The market rules must be non-discriminatory. The submission asserts that the existing allocation of non-energy market charges to linked wheel transactions is discriminatory.

Priority: Medium

Criteria for Assigning Priority:

- Pervasiveness of the problem: the extent to which an issue is adversely affecting a number of market participants, the extent of the adverse impact on the affected participants, and the likely duration of the problem. The dollar impact of the existing allocation was significant in the first six months of 2008. The impact on a transaction basis remains, even if the volume of transactions has reduced as a result of changes to the NYISO tariff.

Not Accepted (please indicate with x): ☐

Clarification/Interpretation Required (please indicate with x): ☐

Technical Panel Minutes Reference: IESOTP 218-1

Technical Panel Comments:

The Panel, while determining that the amendment submission does warrant consideration, questioned whether the change proposed by Constellation would actually achieve what the Panel understands to be Constellation's intention. Setting a linked wheel's AQEI and AQEW values to zero for settlement purposes would result in a linked wheel not attracting any non-energy market charges or payments. The Panel understands that Constellation's intention is that a linked wheel should attract only the following non-energy market charges:

- the IESO administration fee,
- reactive power and voltage control ancillary service,
- transmission export fee, and
- transmission losses to the extent that the rest of the market pays for such losses.

The Panel also identified a number of issues and questions that require responses as the Panel further considers the requested change. These issues are listed in the Attachment A.

DRAFT

PURPOSE

This document is a record of the issues identified by the Technical Panel regarding MR-00347. This document will also record the responses to those issues. It is expected that this document will evolve as the Technical Panel considers and deliberates on MR-00347: new issues will be identified and responses developed; existing responses will be revised.

BACKGROUND

Constellation Energy Group made a market rule amendment submission (MR-00347-Q00) in July 2008 requesting that market rule amendments be made to change the non-energy market charges paid by linked wheel transactions. At its meeting on August 12th, 2008, the Technical Panel determined that the amendment submission warranted consideration. The Panel identified a number of issues and information needed with respect to the request from Constellation that require responses for the Panel to determine what changes, if any, are required and what would be the impact of those changes.

OUTSTANDING ISSUE OR INFORMATION REQUEST

1. Neighbouring markets have locational pricing mechanisms, and such prices incorporate the cost of internal and intertie congestion, as well as internal transmission losses. Import and export transactions in the IESO-administered markets are subject to a uniform price adjusted by an intertie congestion price. Congestion costs and transmission losses are recovered as part of non-energy market charges. Given that, what is an appropriate basis for comparing the Ontario non-energy market charges to those neighbouring markets?

Response

2. What is the appropriate basis to determine the non-energy market charges that a linked wheel should pay in the IESO-administered markets? Cost causality? Beneficiary pays? Socialization across all energy withdrawals? Other?

Response

3. Is the recent New York ISO tariff change, which, unless upheld by FERC, would expire in late November 2008, that prohibits certain linked wheel transactions[1] significant and/or relevant to the change requested by Constellation?

[1] The specifics and explanation of the changes to the NYISO tariff can be found at the following link:

Response

4.	What are the specific Ontario non-energy market charges and transmission charges currently paid by linked wheel transactions? What are the specific Ontario non-energy market charges and transmission charges that would be paid by the linked wheel transactions under the Constellation proposal? Which non-energy market charges and transmission charges that would no longer be paid by linked wheel transactions would be paid by other market participants? What is the dollar impact to those other market participants? What is the dollar impact on the IESO and the transmitters?

Response

5.	What is the FERC and U.S. markets jurisprudence with respect to: • determining the appropriate allocation of non-energy market charges to market transactions; and • supporting the Constellation claim that the Ontario allocation may be viewed as rate pan-caking and discriminatory access?

Response

6.	What is the distinction between a linked wheel transaction and other market transactions (exports, domestic consumption) that warrants a different allocation of non-energy market charges for linked wheel transactions? Does that distinction justify considering changes only for linked wheel transactions?

Response

7.	Would a different allocation of non-energy market charges for linked wheels relative to other transactions be discriminatory to those other transactions? Would an expert, independent review of the allocation of non-energy market charges in Ontario be needed to assess the issue of discriminatory treatment?

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http://www.nyiso.com/public/webdocs/documents/regulatory/filings/2008/07/nyiso_exgnt_crcmstnc_extrnl_trnsctns_7_21_09.pdf.

Response

8.	To what extent would the change, as proposed by Constellation, encourage linked wheel transactions through Ontario? What would be the impact of an increased volume of linked wheel transactions on the operation of the IESO-controlled grid under a variety of system conditions e.g. high demand?

Response

9.	Linked wheel transactions use the Ontario infrastructure and market. Can it be demonstrated that linked wheel transactions do not result in a net burden to Ontario consumers e.g. Ontario consumers shouldering additional infrastructure or market costs resulting from linked wheel transactions?

Response

10.	Are there synergies and/or dependencies between this market rule amendment and the linked wheel economic dispatch proposal before the Panel under MR-00338? Under that proposal, linked wheel transactions would be scheduled and settled on the basis of the difference between the sink and source locational prices. Such pricing would include, to some extent, incorporate the cost of internal and intertie congestion, as well as internal transmission losses. If there are synergies and/or dependencies, what is the appropriate means to manage those synergies and/or dependencies?

Response