Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00370		
Subject:	Congestion Management Settlement Credits (CMSC)		
Title:	Limiting CMSC Payments for Exporters and Dispatchable Loads		
Nature of Proposal:	☒ Alteration	☐ Deletion	☒ Addition
Chapter:	9	Appendix:	
Sections:	3.5.2, 3.5.6A(new)		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel Review	June 4, 2010
2.0	Draft for Technical Panel Review	June 30, 2010
3.0	Publish for Stakeholder Review and Comment	July 8, 2010
4.0	Draft for Technical Panel Review	August 12, 2010
5.0	Draft for Technical Panel Review	September 8, 2010
6.0	Recommended for Technical Panel; Submitted for IESO Board Approval	September 14, 2010
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

It is proposed that when an exporter or dispatchable load is eligible for a CMSC payment and has a negative bid that is less than -$125 for exporters/ -$50 for dispatchable loads, and the bid is less than the applicable energy market clearing price, the prices used for the CMSC payment calculation would be the lesser of -$125 for exporters/ -$50 for dispatchable loads or the applicable market clearing price.

The replacement bid prices of -$125 for exporters and -$50 for dispatchable loads shall be set by the IESO and published in the applicable market manual. The prices will be periodically reviewed by the IESO to assess their impacts, and are subject to change if necessary.

Background

In its January 2010 Monitoring Report[1], the Market Surveillance Panel (MSP) identified an opportunity for market participants to obtain excessive CMSC payments from the marketplace through strategic bidding practices. Specifically, the MSP noted a significant increase in constrained on payments to exporters who submit negative bids, especially in the Northwest. Excess generation, transmission limitations, limited import/export capability at the Minnesota and Manitoba interties, and a significant drop in demand in the Northwest (22% decline in 2009 compared to 2008) frequently results in low or negative shadow prices in that zone[2]. Negative shadow prices provide the opportunity for exporters/dispatchable loads to bid strategically to earn significant constrained on payments, resulting in higher uplift costs for Ontario consumers.

To address this particular concern, the MSP recommended that for the purposes of calculating constrained on CMSC for all export and dispatchable load transactions, the IESO should use a replacement bid, such as $0/MWh. The MSP also noted that using a $0/MW replacement bid price for constrained on CMSC payments to exporters/dispatchable loads would create consistency with the treatment of generators and importers that receive constrained off CMSC payments (July 2003 urgent rule amendment MR-00239).

[1] Market Surveillance Panel Monitoring Report on the IESO-Administered Electricity Markets for the period from May 2009 to Oct 2009 (refer to section 3.1).

[2] The Pine Portage shadow price (representative of the Northwest) was negative 47% of the time in 2009 compared to 20% of the time in 2008.

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Export Transactions

Stakeholders expressed concern that using a replacement bid of $0 would be a deterrent to future export transactions, most notably during periods of surplus baseload generation. For example, if the price at which the export is settled in the neighbouring market is negative, an export from Ontario would have to pay to import into the neighbouring market. A replacement bid of $0 could result in the exporter suffering a loss in this case and the exporter is not likely to trade. In order to attempt to capture an exporter's exposure to negative MISO prices, export transaction costs in Ontario (including relevant hourly and monthly uplifts and export tariff fee) and transactional costs in MISO (including the Revenue Sufficiency Guarantee), the IESO reviewed the 2009 MISO intertie prices used for export transactions at the ONTW intertie, as well as the hourly cost summation of ONTW prices and all transactional costs. The analysis focused on instances when market conditions presented the opportunity for efficient exports into a negative MISO market (i.e. instances whenever the Pine Portage nodal price was more negative than ONTW). Since the ONTW and export transaction costs did not conform to a normal distribution, the use of a 1st percentile methodology (99% equivalent) was used to better promote efficient trade. The following table provides a summary of the analysis:

	Number of hours	1st percentile (99% equivalent)	
		Without Transactional Charges	With Transactional Charges
All hours in 2009	8,760	-$32.82	-$39.00
ONTW<0	360	-$138.92	-$144.76
PinePortage<ONTW<0	145	-$120.02	**-$124.23**

Based on the above analysis, the IESO is proposing to set the initial replacement bid price for exporters at -$125 (rounded value of -$124.23).

Dispatchable Loads

Until recently, CMSC earned by dispatchable loads resulting from negative bids has not been an issue. However, beginning in the second quarter of 2010, a single dispatchable load received on average, approximately $850K per month of constrained on CMSC associated with negative bids. In addition to earning CMSC resulting from negative shadow prices, the market participant earned CMSC during ramp down caused by consumption deviation within the 15MW compliance deadband with bids at a large negative price. The replacement bid mechanism proposed by MR-00370 will significantly reduce the inappropriate constrained on CMSC earned by the market participant resulting from consumption deviations and large negative bids, and the IESO will consider a separate set of rule amendments outside the scope of MR-00370 to further address the consumption deviation issue.
In order for a dispatchable load to recover its non-energy costs as a result of being constrained on, the IESO is proposing to set the initial replacement bid price for dispatchable loads at -$50 (rounded value of

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-$46.93), determined as follows:

IESO Wholesale Market Charges	Arithmetic Average Year-to-Date[3]
Global Adjustment	$29.30
Wholesale Market Service Charges:	
CMSC	$0.87
IOG	$0.06
Other Hourly	$0.71
Monthly	$0.92
IESO Administration	$0.82
OPA Administration	$0.55
Rural/Remote Settlement	$1.30
Debt Retirement Charge	$7.00
Subtotal	$41.53
HST	$5.40
Total	**$46.93**

Limiting the replacement bid to -$50 based on the above charges better ensures that the dispatchable load is not subsidized by the IESO market for other, non-energy related costs as a result of being constrained on.

Discussion

Amend the market rules in Chapter 9, section 3.5 to specify that for the purposes of calculating CMSC, the IESO may adjust any bid price associated with an exporter or dispatchable load facility under the following conditions:

1. The bid price is less than the prices determined by the IESO (initial price of -$125 for exporters/ -$50 for dispatchable loads); and
2. The bid price is less than the applicable energy market price (i.e. the zonal clearing price at the intertie for exporters, or the Ontario market clearing price for dispatchable loads).

When these two conditions are met, the IESO shall adjust the negative bid price to the lesser of the prices determined by the IESO (-$125/MWh for exporters, -$50/MWh for dispatchable loads), or the applicable intertie/Ontario market clearing price.

[3] All figures available on the IESO's June 2010 Monthly Market Report http://www.ieso.ca/imoweb/pubs/marketReports/monthly/2010jun.pdf

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The second condition (i.e. where the bid price is less than the applicable energy market price) will result in a replacement bid to limit constrained on, positive CMSC (as recommended by the MSP), as well as constrained off, negative CMSC. Limiting constrained off, negative CMSC will add a degree of symmetry and fairness to the proposal.

The qualification on the adjustment (i.e. the lesser of calculation) is necessary to avoid charging the market participant an inappropriate negative CMSC payment.

The replacement bid prices will be set by the IESO rather than being hardcoded into the market rules to allow for a more expedited change process. Furthermore, the prices will be published in the applicable market manual and subject to periodic review.

The permissive language of the rule (i.e. the IESO "may" adjust) allows the IESO discretion to pursue only material instances of inappropriate CMSC until such time the replacement bid mechanism is automated.

PART 4 – PROPOSED AMENDMENT

Chapter 9

3.5 Hourly Settlement Amounts for Congestion Management

3.5.2 Subject to sections 3.5.6, 3.5.6A, 3.5.7 and 3.5.9 and subject to Appendix 7.6 of Chapter 7, the hourly congestion *management settlement credit* for *market participant* 'k' for *settlement hour* 'h' ("$CMSC_{k,h}$") shall be determined by the following equation:

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3.5.6 The *IESO* shall adjust, in the matrices specified in section 3.5.2 and for the purposes of determining the applicable congestion management *settlement* credit payments, any *offer price* that:

3.5.6.1 is associated with a *generation facility* or is associated with an injecting *boundary entity*; and

3.5.6.2 is less than a specified lower limit where such limit is the lesser of 0.00 $/MWh and the *energy market price* for the applicable *dispatch interval*;

to that lower limit.

3.5.6A The *IESO* may adjust, in the matrices specified in section 3.5.2 and for the purposes of determining the applicable congestion management *settlement* credit payments, any *bid* price that:

3.5.6A.1 is associated with a *dispatchable load facility* or is associated with a withdrawing *boundary entity*;

3.5.6A.2 is less than the prices determined by the *IESO* in accordance with the applicable *market manual*; and

3.5.6A.3 is less than the *energy market price* in the applicable Ontario or *intertie zone* for the applicable *dispatch interval*;

to the lesser of the prices determined by the *IESO* in accordance with the applicable *market manual* and the *energy market price* in the applicable Ontario or *intertie zone*.

PART 5 – IESO BOARD DECISION RATIONALE

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