



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@theIMO.com

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 *IMO* 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 *IMO* 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: IMO Staff	
(if applicable) <i>Market Participant / Metering Service Provider No.</i> ¹ :	<i>Market Participant Class:</i>
Telephone: 416-506-2801	Fax: 416-506-2847
Email Address: Rule.Amendments@theIMO.com	

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: Congestion Management Settlement Credits
Title: Recommendations from July 2003 Market Surveillance Panel Report
Nature of request (please indicate with X): <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition
Clarification
Chapter: 9, 11 Appendix: 7.6 Sections: 3.5, 4.8
Sub-sections proposed for amending/clarifying : 4.8.2 & 3.5.6 (ch. 9), 1.3.3 (Appendix 7.6)

¹ 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 *IMO-administered markets*. Include the Chapter and Section number of the relevant market rules.

At its meeting of July 3, 2003, the IMO Board endorsed the recommendations of the Market Surveillance Panel (MSP) presented in its report entitled: “Constrained Off Payments and Other Issues in the Management of Congestion”(http://www.theimo.com/imoweb/pubs/marketSurv/ms_CMSC-Consultation_20030703.pdf) and directed IMO Management to take action to implement these recommendations in on-going consultation with the Board.

Four of the IMO Board endorsed MSP recommendations require market rule amendments:

1. Basing Constrained Off Payments on Negative Offer Prices.

Recommendation

“The Panel recommends that constrained off payments should be calculated based upon an offer price that is no less than the lower of zero or the zonal price where the zonal price is negative.”

The Market Surveillance Panel concluded there is no efficiency rationale for constrained off Congestion Management Settlement Credits (CMSC) payments based on negative offer prices. CMSC payments based on negative offer prices can exceed the Market Clearing Price (MCP). If the market rules are amended so that the lower limit of the offer price were set at zero for purposes of calculating the CMSC, the maximum possible CMSC payment would be equal to the MCP. Limiting CMSC payments in this way does not prevent a participant from offering energy at negative prices. Nor does it prevent the scheduling of offers in accordance with negative prices.

The MSP also concluded that in cases where the zonal price is negative and exceeds the offer price, constrained off payments should be based upon the negative zonal price in order to prevent unwarranted CMSC payments from market participants to the IMO. The savings to loads from modifying the method of calculating CMSC, using the lesser of zero or the negative zonal price, would have been about \$6 million from July 2002 to March 2003.

A recent urgent rule amendment (MR-00239) implemented this proposed modification for constrained off CMSC payments to Ontario based generation. It came into effect on June 26, 2003 and was ratified by the IMO Board on July 3, 2003. Based upon the MSP recommendation there is a need to further modify the market rules to apply to imports as well.

2. CMSC Review and Mitigation of Hydroelectric Facilities.

Recommendation

“The Panel recommends two modifications to the definition of the historical reference price hydroelectric facilities. The applicable period should be 30 days prior to the trade date,

PART 3 – DESCRIPTION OF THE ISSUE

rather than the current 90-day period. Also, the historical reference price across this period should be based on the MCP weighted by the market schedule quantity, rather than the average offer price.”

The Market Surveillance Panel was concerned that the historical reference price currently used for purposes of review of CMSC payments to hydroelectric facilities is not an accurate estimate of the opportunity cost of their water. In the Market Surveillance Panel’s opinion, the thirty day average price (MCP) received by each hydroelectric facility selected in the market schedule will provide a more accurate representation of the opportunity cost for that facility than does the ninety day average offer price currently used in the CMSC review process. The Market Surveillance Panel believes this proposed estimation will reduce the number of constrained on situations involving hydroelectric facilities that are reviewed, however, it may increase the number of constrained off events for which prices are reviewed. The recommended reference price would also tend to provide higher price limits which would be a more reasonable basis for modifying any CMSC settlement adjustments that result from the review in Appendix 7.6

3. Self-induced Constrained Off CMSC.

IMO Board Endorsed Recommendation

“The Panel recommends that the IMO initiate a rule change which does not require the IMO to make such payments in the first place or authorizes the IMO to completely recover self-induced constrained off CMSC payments to generation or dispatchable load.”

Constrained off CMSC may be realized by a dispatchable generator or load participant as the result of their deviation with dispatch instructions. Self-induced CMSC may also be the consequence of facility requirements and corresponding limitation applied by the system operator in response to information provided by the participant. The Market Surveillance Panel concluded there is no market efficiency rationale for these CMSC payments and that the market rules should be amended to eliminate them.

4. Constrained Off Imports

IMO Board Endorsed Recommendation

“The Panel recommends that the IMO initiate procedural changes and clarify the rules as necessary to allow it to remove import offers from New York or other jurisdictions from the offer stack when it is known with reasonable certainty that these import transactions can not be successfully scheduled.”

If an offer at the New York intertie is not selected in the Ontario market schedule or constrained schedule in the two-hour ahead pre-dispatch, the IMO notifies the NYISO that this potential transaction was not successful. The NYISO then removes this bid from its 90-minute ahead auction, making it certain that the offer cannot succeed in the New York market either. The IMO does not now remove offers such as this from consideration in the one hour ahead pre-dispatch and it is not clear that it has the authority to remove them even though they are no longer available because their New York leg has been cancelled. The Market Surveillance Panel is of the opinion that, in general, market efficiency is not served by including offers of fictional energy in the offer stack.

PART 3 – DESCRIPTION OF THE ISSUE

Editorial comment: This recommendation is focused on imports that are not scheduled for reasons such as pre-dispatch price or protocols with neighbouring jurisdictions.

For further information on the background to these issues please refer to the MSP's discussion paper. http://www.theimo.com/imoweb/consult/consult_cmssc.asp

PART 4 – PROPOSAL (BY SUBMITTER)

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

Re recommendation on Constrained Off Payments on Negative Offer Prices:

- Amend section 3.5 of Chapter 9 (as already amended under MR-00239) to extend the rules to apply to importing boundary entities.
- Amend section 4.8.2 of Chapter 9 to enable clawed back CMSC payments for importing boundary entities to be redistributed to loads on basis of monthly AQEW. In addition, it is proposed to amend section 4.8.2 to provide similar provision for clawed back CMSC payments enabled by MR-00239, as this provision was omitted inadvertently in the development of MR-00239.

Re recommendation on Reference Price of Hydroelectric Facilities:

- Amend the definition of historical reference price in Chapter 11 of the market rules to reflect the Board's direction on the determination of historical reference price for hydroelectric facilities (noted above).
- Amend section 1.3.3 of Appendix 7.6 to enable the application of the modified historical reference price for hydroelectric facilities to price screens undertaken for local market power investigations.

Re recommendation on Self-Induced Constrained off CMSC:

- Amend Chapter 11 of the market rules to include a definition of self-induced constrained off event to include factors such as:
 - The reduction in load or generation not the result of an IMO-controlled grid condition or market requirement, or
 - the operation of facility, as represented by the offer or actual conditions, does not allow increasing dispatch instructions such that the facility's constrained schedule cannot approach the facility's market schedule more closely.
- Amend section 3.5 of Chapter 9 to specify that the IMO may withhold or claw back self-induced constrained off CMSC payments.

- Amend section 4.8.2 of Chapter 9 to specify that clawed back CMSC payments for self-induced constrained off CMSC payments would be redistributed to loads on basis of monthly AQEW.

Re recommendation on Constrained Off Imports

- Amend section 5.2.1 of Chapter 7 to clarify that the IMO has the authority to remove imports from the offer stack when it is clear they can not be successfully scheduled.

PART 5 – FOR IMO USE ONLY

Technical Panel Decision on Rule Amendment Submission	
MR number: MR-00195-Q00	
Date submitted to Technical Panel: August 26, 2003	
Accepted by Technical Panel as: <input checked="" type="checkbox"/> General <input type="checkbox"/> Urgent <input type="checkbox"/> Minor (please indicate with X)	Date: August 26, 2003
Criteria for acceptance: It identifies ways to simplify the market and/or reduce participant or IMO costs by facilitating an improved efficiency in the design and operation of the IMO-administered markets.	
Priority: High	
Criteria for assigning priority: Pervasiveness of the problem because market inefficiencies caused by the existing CMSC regime impacts on all market participants.	
Not accepted (please indicate with X):	
Clarification/interpretation required (please indicate with X):	
Technical Panel minutes reference: IMOTP-129-1	
Technical Panel Comments: The Technical Panel believes its review of the pending market rules amendment associated with MR-00195-Q00 would benefit from a statement of the purpose of the CMSC regime, and a common understanding of that purpose, in the Ontario market.	