Market Rule Amendment Written Submission

This form is used to provide comment on a market rule amendment under consideration by the IMO. Please complete all four sections 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 Written 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 license. All submitted information will be assigned the *confidentiality classification* of "public" upon receipt. You should be aware that the *IMO* intends to *publish* this written submission.

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 your organization and contact information in full

Name: 1. Brascan Energy Marketing Inc.\ 2. Great Lakes Power Limited – Generation \ 3. Mississagi Power Trust Contact: Daniel Lapierre	
(If applicable) ***Market Participant / Metering Service Provider No.*** [1]**:** 102349, 105258, and 108170	***Market Participant*** **Class:** **Retailer Wholesaler (Importer / Exporter / Marketing) and Generator**
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[1] This number is a maximum of 12 characters and does not include any spaces or underscore.

PART 2 – *MARKET RULE* AMENDMENT REFERENCE

Type of Rule Amendment being commented on (please indicate with X): ___*Amendment Submission*___X_ Proposed Rule Amendment ___Recommended Rule Amendment
MR-# 00195-R00, R01, R02, R03, R04, R05, R06 This Market Rule number is located on the "Current Market Rule Amendment" web page.
Date relevant *Amendment Submission*, Proposed or Recommended Rule Amendment posted for comment:

PART 3 – COMMENTS ON RULE AMENDMENT

Provide your comments.

General Comments

We consider the scope of proposed changes to the Market Rule (MR) on the Congestion Management Settlement Credits (CMSC) to be inappropriate under the current uniform pricing design. We are particularly concerned with the changes that apply to interjurisdictional trading. We consider that the changes will significantly affect the current market design, raise the risk associated with interjurisdictional trading and impact liquidity. The Ontario market was designed around uniform pricing with CMSC as a key component or a major appendage to uniform pricing and supported by the constrained and unconstrained models used for scheduling and pricing energy. The proposed MR changes will strip away some of these key components of the market design.

We are concerned that there has been no study conducted to assess the impact of these changes to the overall market balance. Given that eliminating CMSC will reduce the total value of credits issued; how will it affect liquidity and how many transactions will be lost by implementing these changes. As a participant involved in interjurisdictional trading, the proposed changes will certainly require us reconsider the extent to which we will continue trading at the interties. CMSC is part of the current market design that we all agreed to include under the uniform pricing system. We cannot eliminate CMSC to the magnitude proposed without reviewing to total impact to the balance of the market.

The proposed MR changes originate from the concerns raised by the Market Surveillance Panel (MSP) on efficient operation of the market. However, influencing market efficiency is proving to be much more complex than removing a major appendage as proposed by the changes. This is proven by the market evolution program, specifically in the recent Day Ahead Market (DAM) working group meetings where it was realized that the DAM would require some form Locational Marginal Pricing (LMP) to enable efficient operation of the DAM with the Real Time Market. Without undertaking the proper analysis, development of the efficient design of the added appendage (DAM) would be compromised.

The MSP concerns on efficiency are being properly defined and assessed under the market evolution program. In our opinion, the initiatives pursued under the market evolution program such as Resource Adequacy, DAM, Multi-interval Optimization, LMP and Wholesale/Retail Integration are the proper platforms for addressing market efficiency. These initiatives focus on a bottom up approach through detailed analysis and assessment of all aspects of the market. As stated above, the assessment undertaken in these market initiatives are revealing that these changes to the market are complex. We consider that only under this forum, can major changes be properly assessed, a solution developed &

PART 3 – COMMENTS ON RULE AMENDMENT

reassessed for impact and, only then, implemented in the live market. Additionally, this process enables all participants the opportunity to participate, achieve awareness and self-assess potential impact to their own organization.

The recommendations presented in the Market Surveillance Panel Report of July 03, 2003 are based primarily on consultations triggered by the MSP discussion paper issued in February 2003. There were 14 market participants who commented on the paper which was followed-up by discussion at one MOSC meeting. There was no detailed analysis conducted on the impact such recommendations would have on the overall market other than identifying the potential cost saving from the elimination of CMSC. The Market Surveillance Panel recognize in the July 2003 report that if LMP is implemented, the issues raised will have been addressed in large measure. The report also goes on to conclude that should LMP be substantially delayed beyond the end of 2004, the constrained off CMSC payments should be eliminated and other aspects of the CMSC framework reviewed. We are not aware of any decision to implement LMP nor are we aware that it will not be implemented prior to the end of 2004. Notwithstanding, the proposed MR changes are not consistent with the conclusions or with the recommendation presented in the July report.

We are concerned with the scope of which the proposed changes and how they may affect the market balance. We are also concerned with how such a proposal can reach this level without first being properly assessed. Such changes, especially when piecemeal and arbitrarily targeted at specific issues, increase the perceived uncertainty of the market, thus increasing transaction risk, reducing market liquidity, and adversely affecting long-term investments and contract making in the Ontario market.

MR-00195-R00 & R06

Self-Induced (Facility-Induced) Constrained Off CMSC - We agree that CMSC payments should not arise due to participants deviating from their dispatch instructions. This is a system defect that has been known for some time and must be corrected. We do not concur with the proposed method for correcting this defect. This proposal states that corrections would occur manually after the fact versus manually or automatically before the CMSC is calculated because not enough information is known about the facilities. We have two concerns with the above statement:

1. The manual intervention of large quantities of data and calculations will be repetitive in nature. Our experience with this is that it will require a complex process and will be prone to error when compared to an automated process. The responsibility will then be on the participant to find and provide evidence of errors. This process must be automated, objective, and after the fact, with clear set points and criteria available to participants for review prior to implementation.
2. We are also concerned with the statement that the correction cannot occur prior to CMSC being determined because additional information about facilities is required. All facilities are fully defined in the IMO systems. What is not known about the facility before the transaction that is only revealed after the transaction? We request that this statement be clarified.

Also, under R06 we do not concur with using the monthly AQEW to redistribute the payments to loads. This will counteract the efforts being made toward price transparency. We consider that this cost component should be distinguishable on its own merit.

Basing Constrained Off Payment on Negative Offer Prices. – The emergency rule change MR-00249 disqualified the negative portion of bids for export transactions from being used in CMSC calculations. Now that MR-00249 is implemented, the focus is to go after import transactions. We are not directly affected by this proposed change as we have not identified the correct pricing signals that would cause

PART 3 – COMMENTS ON RULE AMENDMENT

us to offer an injection at a negative price. However, should these price signals appear, the added risk component resulting from this rule change could hinder us from entering the market. This potential transaction would then be lost to the market. There is no additional hedge under the current uniform pricing system to offset the resulting added risk. Also, as stated under the general comments, we are not aware of any impact assessment conducted on the overall balance of the market. Certainly, eliminating CMSC may reduce the total credits issued, but how much liquidity will be lost or how many transactions will be lost from implementing these changes. We do not support this change in any form.

MR-00195-R01 & 02 CMSC Review and Mitigation of Hydroelectric Facilities

We concur that the 90-day reference period prior to the trade date does not reflect accurate market conditions. We also concur that a 30-day reference period prior to the trade date is a better representation of the market conditions, but we do not consider that 'only' the period prior to the trade date is the best representation for all conditions. The market conditions would be better represented using a 30-day reference period on either side of the trade date. For hydroelectric facilities, market conditions are reflective of the season. If the trade is situated at the beginning of the peak summer demand season, then the true market condition would be better reflected by the forward 30-day period (as opposed to the 'prior' 30-day period). We consider that the MR change should be flexible to take into account the seasonal conditions. This would allow the MSP the option to select a reference period of 30 days prior, 30 days after, or split 15 days on each side of the trade date if the trade occurs in the middle of the season. Under the current the 90-day rule, it was not practical to select a reference period forward of the trade date because the mitigation process was initiated prior to 90 days after the trade date.

We require clarification with the proposal described under MR-00195-R02 which makes reference to the market price. This section is significantly different from the description provided under the 'Summary' section of MR-00195-R00. We do not concur with the proposed statement that the historical reference price be based on the market clearing price weighted by the market schedule quantity, rather than the average offer price.

The offer prices for hydroelectric facilities are based on the run mode required (must run or must not run) which is determined by different circumstances, such as:

1. Volatile swings in the MCP;
2. Re-occurrence of unit cycling caused by inefficient dispatch algorithm;
3. Interruption of the river management system created by running or not running the units in the desired order (i.e. – The inefficient dispatch algorithm can affect water level (impact community/fisheries), ice build-up, spilling etc.);
4. Seasonal transition periods (i.e. – The '*must not run*' mode is used to preserve water for the summer peak periods during seasonal transition periods);
5. Period (Peak or off peak); and
6. Financial contracts and futures market.

Under the above circumstances, the offer price should be used to determine the reference price. For example, in considering item 6. above -

> If the hourly cost of energy in the futures market is valued at $400/MWh then the participant may enter into a contract with a consumer who will buy future energy for a fixed price to hedge against potential volatile conditions (similar to a physical bilateral contract in IMO). In the future, the participant would sell its energy into the real time market and collect the HOEP. The HOEP would be passed on to the consumer and the consumer would pay the participant the agreed fixed price. Because of the participants commitment in the future, the participant's

offered prices in the present real time IMO market would reflect the risk of potential price swings in the future IMO market (i.e. HOEP >$400/MWh). If the participant were constrained on in the present real time market, then the participant would risk not having the water available for the future commitment resulting in a 'short' position. Therefore, the participants offered prices in the present are based on the contracted price of energy in the future and on the risk of price swings.

There are different risks factors to consider depending on the circumstance. It remains the participant's responsibility to quantify cost of risk and the offer price. If the market price becomes the reference price, then the true cost will not be considered. The circumstances surrounding the transaction can be revealed to the MSP for consideration during the mitigation process. Notwithstanding, we do not concur with changing the Market Rule to refer only to the market price as the reference price.

MR-00195-R03, 04 & 05 Recommendation from July 2003 Market Surveillance Panel Report – Constrained off CMSC Payments to Import

The following comments are provided in addition to the 'General' comments provided above.

The MR proposal is not clear. The title specifies CMSC Payments to imports but the description finishes by stating that the rule would also apply to export transactions as well as imports. Assuming both, we are extremely concerned with the proposed MR change. The market system and associated processes for scheduling interjurisdictional transactions are flawed. They are flawed because valid economic transactions between Ontario and NYISO that are subject to constraints in the 2 hour ahead pre-dispatch are being disqualified from the schedule at the 2 hour point. Therefore, during the 2 hour ahead pre-dispatch checkout with NYISO, the IMO only consider those transactions that are economical and are likely to flow. As constraint transactions, they are not considered to flow even though the constraint could go away for the 1 hour ahead pre-dispatch. We consider that these transactions that are constraint at the 2 hour ahead point should not be eliminated until the last pre-dispatch is run (1 hour ahead). Many changes can occur to place these transactions back in the constrained schedule for last pre-dispatch run.

Also, in Ontario, transactions are locked in 2 hours prior to the dispatch hour (restricted window) preventing participants from changing their transactions. The NYISO restricted window commences 75 minutes prior to the dispatch hour. We consider it premature to eliminate transactions at the 2 hour point. The proposed MR is considered as another workaround to the problem at the expense of the participants. Fixing the problem and allowing the transactions to make it to the last pre-dispatch run will also reduce CMSC payments.

Furthermore, the problem will increase in magnitude when the MISO market opens. The MISO restricted window will be 30 minutes, thus allowing changes to transactions up to 30 minute prior to the dispatch hour. Meanwhile the current process in Ontario will eliminate the same transactions at 2 hours prior to the dispatch hour.

These seams issues are placing participants in the Ontario market at competitive disadvantage with adjacent markets. After the 2 hour ahead point, these markets will continue to buy and sell with each other while the Ontario market will be closed.

Therefore, we do not concur with the method of correcting the problem. Manually removing the bids/offers from the stack is tampering with the basic market principles. It also does not solve the problem. The proposed MR change is a workaround to the problem that will raise the risk of error and potentially increase the number of failures.

PART 4 – EXTERNAL CONSULTATION MEETING

If you believe that a special meeting of stakeholders would be necessary/desirable to discuss the issues raised by the rule amendment, please complete the following information:

External Stakeholdering meeting necessary/desirable (please indicate with X): **X**

Reason(s) why you believe a meeting is necessary/desirable:

We do consider this proposed MR change to have received sufficient stakeholder review and is not consistent with the results of the limited consultation undertaken. The proposed changes are not supported and therefore do require a stakeholdering meeting.