

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.

Appendix 7.6 provides the IMO with a framework to identify possible abuses of local market power and mitigate abuses of local market power where transmission or security constraints on the IMO-controlled grid create local sub-markets.

Where abuse of local market power has been determined, the IMO may limit the amount of congestion management settlement credit (CMSC) payments to market participants or levy financial penalties.

CMSC payments are paid to market participants when the (constrained) dispatch schedule for a registered facility deviates from the (unconstrained) market schedule (see section 3.5 of chapter 9). The payment is based on the difference between the energy market price and the offer or bid prices for the registered facility. Registered facilities that have local market power (in absence of any reliability must-run contracts) may receive large CMSC payments through excessively high offer or bid prices.

The IMO's Market Assessment Unit, has identified three aspects of Appendix 7.6, which require rule amendments to correct or streamline the process. These aspects are as follows:

1. Negative historical references prices used in the price screen evaluation

Section 1.3.8 describes how the IMO calculates the acceptable energy offer and bid price limits based on reference prices and high end and low end factors. When a reference price is negative, application of the high end and low end price limits results in the irrational result of the upper price limit being below the reference price and the lower end limit being higher than the reference price. Therefore these ranges are rendered ineffective when reviewing an investigated price (see sections 1.3.2 to 1.3.8). The calculation of the upper and lower price limits are proposed to be modified to account for negative reference prices. This proposed change would allow the IMO to properly apply the price limit screen.

An example of the problem is illustrated below.

If the reference price is $-\$40/\text{MWh}$ and the upper price limit (price duration) factor is 1.25, multiplying the two values leads to an upper price limit of $1.25 * -\$40/\text{MWh} = -\$50/\text{MWh}$, which is lower than the reference price. Thus, if a market participant offered a price of $-\$40/\text{MWh}$, equal to the reference price, such a price would be higher than the calculated limit and could fail the price screen.

In such a case, a more appropriate calculation would lead to a price limit which is 25% above the reference price, or in this case, $-\$30/\text{MWh}$ which is $\$10/\text{MWh}$ above the reference price.

Instead of applying the calculation:

$$\text{RP} * \text{factor} \quad (1)$$

(where RP is the reference price), it is more reasonable to calculate the limit as:

$$\text{RP} + \text{abs} [\text{RP}] * (\text{factor} - 1) \quad (2)$$

(where abs [RP] is the absolute value of RP, which is a positive number)

When RP is positive, equation (2) becomes equivalent to equation (1). However, when RP is negative

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equation (2) will lead to:

i) upper ranges above the reference price, as the term (factor –1) will be greater than 1 since the upper range factors are > 1 ; and

ii) lower ranges below the reference price, as the term (factor –1) will be less than 1 since lower range factors are < 1 .

2. Expanded inquiry details

It is proposed to expand section 1.6.6 to specify information requirements of dispatchable load facilities (and exports) during a local market power inquiry. The present local market power rules are silent with respect to information requirements for these market participants once an inquiry has been launched. The proposed informational requirements should be similar to those already specified for constrained on generation units and constrained off generation units (see sections 1.6.3 and 1.6.4).

Section 1.6.3 implies that the IMO must perform the re-calculations of the price limits using the cost components indicated. If any of these cost components are not provided, the only recourse for the IMO is to refer the matter to dispute resolution (see section 1.6.2). It is proposed to provide the IMO with the ability to perform the re-calculations, excluding any of these cost components not provided by the market participant within at least three business days. This new provision would better streamline the inquiry process.

Currently the IMO can request, but not compel, the market participant in advance of the inquiry meeting to provide information as specified in section 1.6.2. It is proposed to make this request an obligation for the market participant to provide this information to the IMO. Effectively, this new obligation would better ensure that the IMO can review and evaluate material in advance of an inquiry meeting. This new provision would also better streamline the inquiry process.

3. Reference to on-peak periods and off-peak periods

Some market participants have found the reference to on-peak periods and off-peak periods, as defined in Chapter 11 and used in Appendix 7.6, to be leading to confusion and contracting difficulties in the marketplace. The definitions in Chapter 11 are not consistent with the other industry and market definitions or notions of what is on-peak and off-peak. Although the intended use of these terms in the market rules is only related to Appendix 7.6, this nevertheless can be misleading. In Appendix 7.6, the terms are only used to establish two averages representative of a facility's prices over the previous 90 days (see section 1.3.3). The averages are referred to as the on-peak historical reference price and off-peak historical reference price. The on-peak value is an average of prices accepted in the market schedule during weekday hours – from 7:00 EST to 21:00 EST on business days. The off-peak historical reference price is an average of prices accepted during other or non-weekday hours. It is proposed to change the terms “on-peak” and “off-peak”.

PART 4 – PROPOSAL

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

Listed below are proposed amendments for the issues identified.

Negative historical references prices used in the price screen evaluation

Amend sections 1.3.8.1 a. and 1.3.8.2 a. of Appendix 7.6 to reflect the new calculation:

$RP + \text{abs} [RP] * (\text{factor} - 1)$.

Inquiry details

Amend section 1.6.6 of Appendix 7.6, to indicate that the factors to be considered under an inquiry will include lost revenues and values, opportunity costs and other costs, relevant for an inquiry for dispatchable loads and exporting boundary entities. Also, modify section 1.6.6 to indicate how these would be used to generate upper and lower price limits.

Amend sections 1.6.2 through 1.6.5 to allow the IMO to perform the re-calculations to the price limits under the circumstance that the market participant under inquiry has not provided information.

Amend sections 1.6.2, by creating a new market participant obligation that information must be submitted at least three business days in advance of the date of the inquiry meeting.

Reference to on-peak periods and off-peak periods

Replace the terms “on-peak” and “off-peak” in section 1.3.3 of Appendix 7.6 and Chapter 11. The term “on-peak” could be defined as a business day between the hours of 0700 to 2100 EST while “off-peak” would represent all other times.

PART 5 – FOR IMO USE ONLY

Rule Amendment Submission Acceptance Information	
MR number: MR-00200-Q00	
Date submitted to <i>Technical Panel</i> :	
Accepted by Technical Panel as: General - <input checked="" type="checkbox"/> Urgent <input type="checkbox"/> Minor <input type="checkbox"/> (please indicate with X on the right)	Date: July 16, 2002
Criteria for acceptance:	
<ul style="list-style-type: none"> • Identifies errors or inconsistencies within the market rules; • Identifies impediments to, or means to enable, operations and market coordination with rules or practices; • Identifies ambiguity or confusion within the rules that causes interpretation confusion and leads to poor coordination of implementation or to future disputes; • Identifies ways to simplify the market and/or reduce participant or IMO costs; and • The expected or perceived benefits of the amendment exceed the expected or perceived costs of implementation 	
Priority: High	
Criteria for assigning priority:	
<ul style="list-style-type: none"> • Pervasiveness of the problem and practical consequences 	
Not accepted (please indicate with X):	
Clarification/interpretation required (please indicate with X):	
<i>Technical Panel</i> minutes reference: IMOTP 109-1	
<i>Technical Panel</i> Comments:	
<p>These market rule amendment submissions warrant further consideration.</p> <p>Comments on these market rule amendment submissions should be sent to the IMO by August 7, 2002, using the Written Submission form.</p>	