



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 : N/A	Market Participant Class: N/A
Telephone: 416-506-2801	Fax: 416 506-2847
Email Address: rule.amendments@theimo.com	

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: Audit
Title: Change Market Rule Requirements for Auditing of Dispatch Algorithm and Settlement Processes and Procedures
Nature of request (please indicate with X): <u>X</u> Alteration__Deletion__Addition __Clarification
Chapter: 7 & 9 Appendix: Sections: 4.2 (ch 7) 6.17 (ch 9)
Sub-sections proposed for amending/clarifying :4.2.4 (ch 7) and 6.17.2/3 (ch 9)

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.

The current market rules require the IMO to conduct the following independent audits or reviews:

- Once every calendar year, an independent review of the dispatch algorithm (chapter 7 section 4.2.4); and
- At least annually, an external audit of settlement processes and procedures (chapter 9 section 6.17.2)

The purpose of the review of the dispatch algorithm is to assess its compliance with the requirements of the market rules and to determine the need for improvements. The purpose of the settlements audit is to evaluate compliance with management control objectives and operational effectiveness of settlement processes and procedures.

These audits and reviews are substantial work efforts and cost significant amounts of money to undertake (i.e. in the order of hundreds of thousands of dollars each). In light of these substantial costs and the restrictions placed on IMO in regards to recovery of costs from the IMO-administered markets, it is appropriate to reduce the requirements for these audits and reviews. Reducing the requirement to once every two years or at the direction of the IMO Board is considered adequate to demonstrate compliance while providing the marketplace with the necessary assurance. At its February 2003 meeting, the Audit Committee of the IMO Board considered and supported more discretion in the frequency of required audits. At that time the IMO indicated that it would be bringing proposed market rule changes back to the IMO Board for its consideration at a future meeting.

The IMO has initiated the first external audit of the settlement processes and procedures. The first phase of this audit (i.e. a “point-in-time” audit) has been successfully completed. The second phase of the audit (i.e. a “period of time” audit) is to be started in April 2003, with the results published in the summer of 2003.

The IMO undertook line-by-line verification of the dispatch algorithm code prior to market commencement. In addition, there was significant testing undertaken of the dispatch algorithm, particularly with market participants during the Uncoupled Operational Dry Run and the Coupled Operational Dry Run. On the basis of this testing, and the operation of the algorithm since market commencement, the IMO is confident that the dispatch algorithm is meeting the requirements of the market rules.

The IMO maintains a strong control environment to support its due diligence over the systems and processes. Through its Enterprise Risk Management process, there is quarterly review of settlements risks and mitigating plans. In addition, if the suggested changes are made, the IMO Internal Audit function would be performing a review of the settlement processes and systems in those years when an external audit is not scheduled.

To provide additional assurances and confidence to the market participants that both the dispatch algorithm and the settlement processes and procedures are functioning as intended, the IMO Board should be able to direct that an external audit or review be undertaken at any time. The IMO may itself also determine that it would be prudent to initiate an external audit or review that goes beyond the frequency requirements of the market rules.

PART 3 – DESCRIPTION OF THE ISSUE

Taking these factors into account, changing the market rule requirement as indicated above would still provide assurance to the marketplace that due diligence will be maintained and that the market will not be exposed unduly to increased risk.

PART 4 – PROPOSAL (BY SUBMITTER)

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

The requirements for the independent review of the dispatch algorithm (chapter 7 section 4.2.4) should be changed as follows:

- No less than once every two years, with the first review to be completed no later than the two-year anniversary of the market commencement date, unless directed otherwise by the IMO Board.

The requirements for the external audit of the settlement processes and procedures (chapter 9 section 6.17) should be changed to:

- No less than once every two years unless directed otherwise by the IMO Board.

PART 5 – FOR *IMO* USE ONLY

<i>Technical Panel Decision on Rule Amendment Submission</i>	
MR number: MR-00227-Q00	
Date submitted to <i>Technical Panel</i>: 11 March 2003	
Accepted by <i>Technical Panel</i> as: <input checked="" type="checkbox"/> General <input type="checkbox"/> Urgent <input type="checkbox"/> Minor (please indicate with X)	Date: 18 March 2003
Criteria for acceptance: Identifies ways to simplify the market and/or reduce participant or IMO costs	
Priority: Medium	
Criteria for assigning priority: Although the issue is potentially very pervasive (i.e. it could affect all market participants), and the solution has no direct implementation issues, there is not an immediate need for the market rules to incorporate such a change.	
Not accepted (please indicate with X):	
Clarification/interpretation required (please indicate with X):	
<i>Technical Panel</i> minutes reference: IMOTP 123-1	

PART 5 – FOR *IMO* USE ONLY***Technical Panel Comments:***

The requirement for external audits and review of IMO-administered market systems, processes and procedures should take into consideration what other ISOs and electricity markets do with respect to similar audits of market systems.

Moving to less frequent audit requirements would provide less market participant confidence that the IMO-administered market systems, processes and procedures are functioning as required.

It may be appropriate to expand the scope external audit of the dispatch algorithm to include the dispatch processes.

It may be appropriate to defer any decision on changing the requirement for the external audit of either the dispatch algorithm and settlement processes and procedures cycle until the first audit each respectively has been completed.

It may be appropriate to require the IMO Board to consult with stakeholders prior to any decision to extend the period between external audits, and to publish any such decision with reasons. The IMO Board should be guided by factors other than cost-savings in such a decision.

Clarification is needed as to whether the external audit cycle is on the basis of the calendar year or the anniversary of the market. Clarification is also needed as to what constitutes an external audit being “completed”. Does it include the publication of the findings or merely the completion of the audit activities?