



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.: MR-00242-R00
Subject: Transmission Rights Market
Title: Management of Transmission Rights Clearing Account Reserve Threshold
Nature of proposal (please indicate with X): <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition
Chapter: 8 Appendix:
Sections: 4.18
Sub-sections proposed for amending: 4.18.3

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Submitted for Technical Panel Vote	September 16, 2003
2.0	Revised and Submitted for Technical Panel Vote	October 9, 2003
3.0	Revised and re-submitted for Technical Panel vote	November 4, 2003
4.0	Recommended by Technical Panel and submitted for IMO Board Approval	November 11, 2003
5.0	IMO Board Approved	December 12, 2003
Approved Amendment <i>Publication Date</i>: December 15, 2003		
Approved Amendment <i>Effective Date</i>: January 6, 2004		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IMO-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 *IMO-administered markets*.

At its meeting on July 3, 2003 the IMO Board directed IMO management to initiate the required rule amendments to implement the following recommendations regarding the transmission rights (TR) market:

- Establish the TR reserve threshold of the TR clearing account at 10M\$;
- Maintain the confidence threshold as is for long-term transmission rights;
- Increase the volume of rights for monthly auctions in steps of 4%, at 3-month intervals, until the monthly settlement, inclusive of auction revenues, becomes negative. If the account balance drops below the required reserve threshold, reduce the monthly volume of TRs in 4% steps at monthly intervals until the reserve threshold is restored.; and
- Assess, at quarterly intervals, the above procedure of increasing and decreasing the volume of monthly rights, with stakeholdering at the Market Operations Standing Committee.

The IMO Board had not established a TR clearing account reserve threshold prior to the above decision i.e. the de facto reserve threshold was \$0.

The current market rules require the IMO to use short-term borrowings if the amounts payable to TR holders exceeds the funds available in the TR clearing account in excess of the reserve threshold. That is, the IMO is not permitted to use the TR clearing account reserve prior to borrowing short-term funds.

However, increasing the volume of monthly transmission rights available increases the probability that the congestion rents and auction revenues collected will not be sufficient to cover the amounts owed to TR holders. Under the current market rules, this would mean an increased probability of the IMO having to use short-term borrowings to make payments to TR holders. The potential increased short-term borrowings would mean increased costs for some market participants.

With the IMO Board's recommended changes and their associated implications, a more fiscally prudent and cost-effective management of the TR clearing account would be to allow the IMO to use the TR reserve prior to borrowing short-term funds to meet TR market payment obligations. This approach is expected to minimize costs to market participants as the reduced costs of borrowing resulting from the reduced need for short-term borrowing would more than offset any loss of investment interest on the reserve threshold amount resulting from the use of the reserve funds to meet TR market payment obligations.

It should be noted that adjusting the volume of monthly transmission rights sold reduces the likelihood of dispensing excess dollars and this represents a change to the philosophy of the management of the Transmission Rights market.

Load market participants backstop any market short term borrowing under section 6.14.5.2 of Chapter 9, yet adjusting the volume of monthly transmission rights sold as described above reduces the likelihood of dispensing excess dollars pursuant to section 4.18.2 of chapter 8 that served as a counterbalance. It is deemed not to be fair that load market participants continue to backstop

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

borrowings required for the TR market with the reduced chance of receiving the potential benefit from the TR market of the disbursement of any excess dollars. To address this, it is proposed that the IMO repay to load market participants, on a pro-rata basis, any recoveries from load market participants of TR market short-term borrowings. This repayment would be made from any excess funds received in the form of TR auction revenues or congestion rents after short-term funds borrowed by the IMO are repaid.

Under the existing market rules, if a successful TR bidder fails to remit, by the required payment date, to the IMO any payment due for transmission rights, that TR bidder is penalized according to sections 4.20.2.1 and 4.20.1.2 of chapter 8. Under sections 4.20.1A and 4.20.1B, if that TR market participant's deposit is held in the form cash or a letter of credit, the IMO is obligated to return that deposit net of any amount to satisfy the penalty (section 4.20.1B) or to draw upon that letter of credit to satisfy the penalty (section 4.20.1B). Furthermore, the TR market participant would have to then send another deposit to the IMO or arrange with the bank to have the letter of credit topped up to maintain their bidding limit if they wished to participate in the next TR auction. This can lead to missed auctions due timing constraints. In view of the fact that the amount owed has been to-date less than 5% of the value of any cash deposit or letter of credit it would be more efficient and economic to all parties that the IMO have the option to invoice for the penalty rather than being obligated return the remaining deposit or draw on the letter of credit.

It is proposed that the following changes be made to sections 4.18, 4.19, and 4.20 of Chapter 8 of the market rules:

- Authorize the IMO to use the funds in the TR reserve after the balances in the TR clearing accounts are exhausted in order to make the necessary payments in the TR market. Short-term funds will be borrowed only after the TR reserve is exhausted. This authority is proposed to be included simply by removing the current market rule restriction on the IMO not using the reserve (see section 4.18.3 below);
- Obligate the IMO, when it receives TR auction revenues or congestion rents in excess of its payment obligations, to first repay any outstanding TR short-term borrowings, second, pay back the applicable market participants for recovery of short term borrowings provided under Ch. 9, section 6.14.5.2, on a pro-rated basis according to, and in an amount that does not exceed, the amount remitted by the market participants, third, re-establish the reserve threshold within the TR clearing account. Any funds left in the TR clearing account will remain in the account;
- Add section 4.19.5A that obligates the IMO to take reasonable steps to locate the applicable market participants that remitted funds to the IMO under Ch. 9, section 6.14.5.2, and that when such steps are taken and the market participant cannot be located (e.g. they are no longer a market participant), the re-imbursed funds for that participant would remain in the TR clearing account;
- Change the name of the minimum reserve level in the TR clearing account to “reserve threshold” to better reflect the purpose and use of these funds;
- Clarify in section 4.19.2 that all funds in the TR clearing account (including the reserve threshold) may be used to pay TR holders prior to resorting to the use of short-term funds and to remove “including the reserve threshold specified in 4.18.3” in section 4.19.6 to be consistent with section 4.19.2; and
- Provide the IMO with the authority to either return the remaining deposit or draw upon a letter of credit when a TR bidder fails to remit any payment due for transmission rights under sections 4.20.1A and 4.20.1B or invoice the participant for the amount of the penalty.

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

It is also proposed that the following clarification changes be made to sections 3.6.3 and 6.14.5.2 of Chapter 9 of the market rules:

- Remove the description of the purpose of disbursements stated in the last part of section 3.6.3 of Chapter 9 as it is not necessary since the purpose is described later in section 4.7 of Chapter 9.
- In section 6.14.5.2 of chapter 9 include the appropriate cross-reference to section 4.19.5 of chapter 8.
- In section 6.14.5.2 of chapter 9 clarify that the IMO will recover short-term borrowings by allocated quantities in the billing period that the IMO invoices the market participants and not the allocated quantities in the billing period for which the borrowings were made.

PART 4 – PROPOSED AMENDMENT

4.18 TR Clearing Account

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4.18.3 The *IMO Board* shall establish a ~~minimum-reserve level-threshold~~ for the *TR clearing account*. ~~No amount may be debited from the *TR clearing account* pursuant to section 4.18.2 if the effect of the debit would be to bring the balance in the *TR clearing account* below such minimum reserve level.~~

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PART 5 – IMO BOARD COMMENTS



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.: MR-00242-R01
Subject: Transmission Rights Market
Title: Management of Transmission Rights Clearing Account Reserve Threshold
Nature of proposal (please indicate with X): <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition
Chapter: 8 Appendix:
Sections: 4.19
Sub-sections proposed for amending: 4.19.2, 4.19.3, 4.19.5, 4.19.6

PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00242-R00

Version	Reason for Issuing	Version Date
Approved Amendment <i>Publication</i> Date:		
Approved Amendment <i>Effective</i> Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

- The reason for the proposed amendment and the impact on the *IMO-administered markets* if the amendment is not made
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Refer to MR-00242-R00.

PART 4 – PROPOSED AMENDMENT**4.19 Settlement**

4.19.2 Payments required to be made by the *IMO* to *TR holders* in accordance with section 4.4.1 shall be funded by means of debits from the *TR clearing account*. Where the aggregate amount payable to *TR holders* in a given *billing period* under section 4.4.1 exceeds all the funds available in the *TR clearing account*, in excess of the minimum reserve level required pursuant to section 4.18.3, the shortfall shall be funded by the borrowing of short-term funds in accordance with section 6.14.4 of Chapter 9.

4.19.3 Where the aggregate amount payable to *TR holders* in a given *billing period* under section 4.4.1 is less than the congestion rents collected during that *billing period* as described in section 4.18.1.1, the excess shall be used first, to repay any short-term funds borrowed by the *IMO* on account of a shortfall referred to in sections 4.19.2 and 4.19.6, and second, subject to section 4.19.5A, to reimburse market participants for funds recovered by the *IMO* under under Chapter 9, section 6.14.5.2, on a pro-rated basis according to, and in an amount that does not exceed, the amount so recovered, third, to replenish the reserve -threshold specified in section 4.18.3, and the balance shall remain in the *TR clearing account* .credited to the *TR clearing account*.

4.19.5 Where, in respect of a given *TR auction*, the aggregate amount received by the *IMO* in respect of the purchase of *transmission rights* exceeds the aggregate amount payable by the *IMO* in respect of the sale of *transmission rights* in that *TR auction*, the excess shall be used first to repay any short-term funds borrowed by the *IMO* on account of a shortfall referred to in sections 4.19.2 and 4.19.6, second, subject to section 4.19.5A, to reimburse market participants for funds recovered

by the *IMO* under Chapter 9, section 6.14.5.2, on a pro-rated basis according to, and in an amount that does not exceed, the amount so recovered, third, to replenish the reserve threshold specified in section 4.18.3, and the balance shall remain in the *TR clearing account*.~~credited to the *TR clearing account*.~~

4.19.5A In the event that the *IMO* cannot, after taking all reasonable steps to do so, locate market participants from which funds were recovered by the *IMO* under Chapter 9, section 6.14.5.2, any amount that would otherwise be distributed to such market participants under sections 4.19.3 and 4.19.5 shall remain in the *TR clearing account*.

4.19.6 Where, in respect of a given *TR auction*, the aggregate amount received by the *IMO* in respect of the purchase of *transmission rights* is less than the aggregate amount payable by the *IMO* in respect of the sale of *transmission rights* in that *TR auction*, the shortfall shall be funded first, ~~subject to section 14.8.3,~~ by use of all funds from the *TR clearing* and then, a transfer of funds from the *TR clearing account* and second, by the borrowing of short-term funds in accordance with section 6.14.4 of Chapter 9.

PART 5 – IMO BOARD COMMENTS



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.: MR-00242-R02	
Subject: Transmission Rights Market	
Title: Management of Transmission Rights Clearing Account Reserve Threshold	
Nature of proposal (please indicate with X): <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition	
Chapter: 9	Appendix:
Sections: 3.6	
Sub-sections proposed for amending: 3.6.3	

PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00242-R00

Version	Reason for Issuing	Version Date
Approved Amendment <i>Publication</i> Date:		
Approved Amendment <i>Effective</i> Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

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Refer to MR-00242-R00

PART 4 – PROPOSED AMENDMENT

Chapter 9

3.6 Hourly Settlement Amounts for Transmission Rights and Charges

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3.6.3 Disbursements from the *TR clearing account* authorised by the *IMO Board* pursuant to section 4.18.2 of Chapter 8 shall be used by the *IMO* in accordance with section 4.7 ~~to offset certain transmission service charges due to transmitters under their transmission tariffs.~~

PART 5 – IMO BOARD COMMENTS



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.: MR-00242-R03	
Subject: Transmission Rights Market	
Title: Management of Transmission Rights Clearing Account Reserve Threshold	
Nature of proposal (please indicate with X): <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition	
Chapter: 9	Appendix:
Sections: 6.14	
Sub-sections proposed for amending: 6.14.5.2	

PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00242-R00

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PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

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Refer to MR-00242-R00

PART 4 – PROPOSED AMENDMENT**Chapter 9****6.14 Payment Default**

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6.14.5 If the *IMO* borrows short-term funds pursuant to section 6.14.4, it shall recover this borrowing:

6.14.5.1 where the insufficient funds were due to a payment default referred to in section 6.14.4.1 (a) by taking all steps against the *defaulting market participant* as provided for in these *market rules* and as referred to in section 8.1.2.2 and then, if necessary, by imposing the *default levy* in accordance with section 8 of Chapter 2; or

6.14.5.2 where the insufficient funds were due to the circumstances referred to in section 6.14.4.1 (b), in the manner referred to in sections 4.19.3 and 4.19.5 of Chapter 8 and then, if necessary, by recovering from *market participants*, on a pro-rata basis across all allocated quantities of *energy* withdrawn at all *RWMs* and *intertie metering points* during all intervals and *settlement hours* within ~~that the~~ energy market billing period in which the *IMO* invoices the *market participants*.

PART 5 – IMO BOARD COMMENTS



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.: MR-00242-R04	
Subject: Transmission Rights Market	
Title: Management of Transmission Rights Clearing Account Reserve Threshold	
Nature of proposal (please indicate with X): <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition	
Chapter: 8	Appendix:
Sections: 4.20	
Sub-sections proposed for amending: 4.20.1A, 4.20.1B	

PART 2 – PROPOSAL HISTORY – PLEASE REFER TO MR-00242-R00

Version	Reason for Issuing	Version Date
Approved Amendment <i>Publication</i> Date:		
Approved Amendment <i>Effective</i> Date:		

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

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Refer to MR-00242-R00

PART 4 – PROPOSED AMENDMENT

Chapter 8

4.20 Default in Payment

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4.20.1A Where section 4.20.1.2 applies and the *TR market deposit* is in the form of a cash deposit, the *IMO* ~~may draw upon the cash deposit and credit to the *TR clearing account with the amount of the penalty or may invoice the market participant for the amount of the penalty*~~ shall credit to the *TR clearing account* the amount referred to in section 4.20.1.2(a) or 4.20.1.2(b), as the case may be, and shall may remit to the *TR bidder* the difference, if any, between such amount and the amount of the *TR market deposit*.

4.20.1B Where section 4.20.1.2 applies and the *TR market deposit* is in the form of an irrevocable letter of credit, the *IMO* shall may claim and realize upon the letter of credit in respect of the amount referred to in section 4.20.1.2(a) or 4.20.1.2(b), as the case may be, and shall credit to the *TR clearing account* the proceeds of such realization.

PART 5 – IMO BOARD COMMENTS