



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 licence. 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

1. Brascan Energy Marketing Inc. 2. GLPL-Generation Division 3. Mississagi Power Trust

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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

<p>Type of Rule Amendment being commented on (please indicate with X):</p> <p><u> </u> <i>Amendment Submission</i> <u> </u> Proposed Rule Amendment <u> </u> Recommended Rule Amendment</p>
<p>MR-# 00253-Q00</p> <p>This Market Rule number is located on the “Current Market Rule Amendment” web page.</p>
<p>Date relevant <i>Amendment Submission</i>, Proposed or Recommended Rule Amendment posted for comment:</p>

PART 3 – COMMENTS ON RULE AMENDMENT

Provide your comments.

<p><u>COMMENTS ON PROPOSED MARKET RULE AMENDMENT- MR-00253-Q00</u></p> <p><u>Reference:</u> Administrative Pricing – MR-00253-Q00, with Strawman attachment dated February 18, 2004</p> <p>The following comments are offered on behalf of:</p> <ul style="list-style-type: none"> - Brascan Energy Marketing Inc. - Great Lakes Power Limited – Generation Division - Mississagi Power Trust <p>The IMO is commended for addressing the issues surrounding the current administered pricing scheme. We agree that under certain circumstances when prices must be administered, the Market Rules do not provide the IMO the flexibility required to administer prices that reflect the prices that would otherwise have been produced by the market. Although an improvement from the present practice, it is clear from the discussions and questions raised by the broader group of participants at the recent MAC meeting on February 18 that further review and consideration is required. The following items from the MAC meeting are noted and discussed:</p> <ol style="list-style-type: none"> 1. Accuracy of recalculating market prices and market schedules 2. Alternate administered pricing options – Extending the slope of the price curve during short periods of administered pricing and using the predispatch data 3. Entitlement for self-scheduling entities to a margin of profit during a market suspension 4. Using the average of the actual hourly prices of the 4 most recent same days of the week 5. Administered pricing during emergency operating control action events as encountered on January 15, 2004. <p><u>Item 1</u></p> <p>The IMO indicated at the MAC that recalculating market prices and market schedules is more of an approximation than a recalculation. The strawman attached to the proposed amendment states that the IMO does not have the capability to recalculate prices and market schedules. It is noted that, since the</p>
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MAC meeting, this option was re-worded in the recent issue of the proposal and now states - “Approximate or, when capable, recalculate market prices and corresponding market schedules”. The combined information is conflicting and confusing and gives the perception that recalculation, although proposed as a viable option, is not be possible. More information is required on the restrictions and the technical difficulties for recalculating administered pricing. Also, the details and circumstances in which a recalculation can be undertaken should be defined and clarified to better understand the concept.

Item 2

Alternate options were suggested and discussed at the MAC which are not explained or considered in the proposed amendment or attached strawman.

One option suggested by the Technical Panel (see comments under Part 5 of the reference) is to use the pre-dispatch data. Another option was to extend the slope of the price curve across the gap during short periods of administered pricing (i.e. – Determining the slope of the price curve between the last good interval and the next good interval with the slope of the supply/demand curve). The IMO comment was that it may be difficult to use the price curve with the market schedule from a previous hour.

These options warrant further consideration particularly during events that exceed 24 intervals when there is no market schedule. If combined, they may also be used during the first 24 intervals of an administered pricing event. Regardless, the options should not be eliminated until properly analyzed

Item 3

An issue was raised at the MAC that self-scheduling entities are not entitled to a margin of profit similar to dispatchable resources when they follow dispatch instructions during a market suspension. The proposed amendment does not distinguish between market participant types. It needs to be clarified who is entitled to claim a margin of profit and whether there is a different standard for different types of market participants.

Item 4

Concern was raised at the MAC with using a ‘30-day average’ to calculate administered prices for periods when the event exceed 24 intervals. This proposal was changed to reflect the Technical Panel comments (see comments under Part 5 of the reference) to use the average of the actual hourly prices of the 4 most recent same days of the week. This is a definite improvement over the current similar day average and is adequate during normal market conditions. However, under emergency operating control action events, this option does not accurately reflect actual conditions and/or circumstances encountered (see item 5 below). Furthermore, it remains to be seen if using the slope of the price curve and/or the pre-dispatch price are better means to satisfy the guiding principles of administering prices (see item 2 above).

Item 5

The proposed amendment does not go far enough to address the double pricing standard encountered when there is global contingency or during an emergency operating control action event such as

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encountered on January 15, 2004. We recognize that it may not be possible to anticipate all events that might lead to the need to administer market prices. However, an emergency operating control action is a distinct event that should be anticipated when it coincides with administered market pricing.

During an emergency operating control action, peak demands and/or supply shortfalls will cause export transactions to be recalled and emergency power to be purchased from external sources. The administered pricing scheme does not reflect price paid for the energy. Therefore, we have different prices used for settlements existing at the same time in the market. This is in direct conflict with the guiding principles used to establish administered pricing (i.e. - fair, reasonable, transparent and flexible).

Whether the market is suspended or not, the posted prices should reflect the price paid for the energy during the administered period. The market must be allowed to run in such a way as to provide the correct price signals to investors and the Government. This is required to ensure market credibility and integrity.

During the emergency control action experienced on January 15, Ontario experienced a supply shortfall during peak demand. Consequently, a data input error caused the prices for 36 intervals to be corrupt. The event was not significant enough to warrant a market suspension. The resulting administered prices (using the similar day methodology) posted for the world to view indicated that, in Ontario, a supply shortfall will result in lower prices (i.e. – The true market prices at each end of the administered price scale were significantly higher than the administered prices). In this case, the administered prices were not ‘fair, reasonable or transparent’ but rather acted as a disincentive to potential investors. On January 15, the cost of the resulting out-of-market purchases (emergency power) made through confidential contracts between the IMO and external suppliers and the cost of recalling export transactions were hidden from the market. These costs should be recognized in the administered pricing scheme and perhaps even used to determine administered prices.

For the wholesale market to progress in credible manner, the market must be allowed to reveal the true price paid for energy. The Market Rules for administered pricing should recognize emergency events and provide the IMO with the authority and flexibility to apply logic based on realistic conditions.

Recommendations:

The proposed amendment is a definite improvement over the present market rule used for administering market pricing. However, further analysis is required to address questions, concerns and additional options. It is recommended that the following issues be addressed through the consultation process prior to seeking approval of the proposed Market Rule amendment:

- A. Recognize an emergency operating control action in the Market Rules for administered pricing as a distinct event
- B. Develop a distinct administered pricing scheme to reflect the price of energy during an emergency operating control action event
- C. Analyze the feasibility of using the price curve to determine administered pricing
- D. Analyze the feasibility of using the pre-dispatch to determine administered pricing
- E. Clarify questions and concerns raised in items 1 and 3 above.

Thank you for your consideration to the above.

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

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

X - Yes – Stakeholding meeting is necessary

Reason: See Recommendations in Part 3 above.