# 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) ***Market Participant* / *Metering Service Provider* No.[1]:** | ***Market Participant* Class:** |
| **Telephone: 416-506-2801** | **Fax: 416-506-2847** |
| **Email Address: rule.amendments@theimo.com** | |

## PART 2 – *MARKET RULE AMENDMENT SUBMISSION* INFORMATION

| |
|---|
| **Subject: Day Ahead Market** |
| **Title: Prudential Security** |
| **Nature of request (please indicate with X): ___Alteration___Deletion___Addition ___Clarification**<br>**Chapter: 2 Appendix: Sections: 5.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5A.1 (new), 5A.2 (new), 5A.3 (new), 5A.4(new), 5A.5 (new), 8 and Chapter 3, section 6.3** |
| **Sub-sections proposed for amending/clarifying :** |

[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.

In consultation with market participants and other stakeholders, the IMO has developed a high level design of a day-ahead market (DAM) strawman[1]. The IMO Board has endorsed proceeding with the development of a day-ahead market and has directed the IMO to proceed with the detailed design and market rule amendments for the DAM consistent with the high-level design. Market rule amendments are needed to incorporate the prudential security requirements for the day-ahead market. The following is a brief description of the prudential requirements for DAM. The DAM detailed design document, "Prudential Security" (IMO_DES_0019)[2] provides details on these requirements for the DAM.

The market rules in Chapter 2 Section 5 specify a market participant's obligation to provide prudential support. These sections set forth the nature and amount of prudential support that must be provided by market participants as a condition of participation in the IMO-administered markets, and the manner in which market participants must provide and maintain such prudential support on an on-going basis in order to protect the IMO-administered markets and market participants from payment defaults. This, in turn, provides greater assurance for the rest of the market against a possible default levy resulting from a market participant's payment default.

The introduction of the *Day-Ahead Market* (DAM) requires some reconsideration of the existing prudential market rules. For example, a market participant's actual exposure, trading limit and maximum net exposure would need to be determined on the basis of the combined real-time and DAM physical transaction activity. Thus, for the most part, any associated rule amendments in this regard would be additive in nature.

For virtual transaction activity, however, a new separate construct is proposed to manage market risk associated with market participants engaged in such activity – whereby any residual risk of default generated by virtual transactions would be assigned to those who participate in virtual transactions. This DAM design selected this separation to ensure that risk is borne by those who are contributing to and/or participating in the risk. The separation of default risk is consistent with the existing market rules which separates the risk of default by different IMO-administered markets. For example, the current market rules have a separate default levy for the Energy Forward Market. The differing risk profiles of the physical and virtual transactions require further sub-division of default levy risk.

The detailed design document for Prudential Security provides additional details on the proposed Prudential process. In addition to the requirements outlined in the detailed design document, a further, consequential amendment to the suspension and disconnection provisions of Chapter 3, section 6.3 is proposed in order to accommodate specific situations in which a market participant:

---

[1] The DAM high level design strawman is publicly available on the IMO website at the following location: http://www.theimo.com/imoweb/pubs/consult/mep/DAM_WG_Strawman-4_0.pdf

[2] The Prudential Security detailed design document is available on the IMO website at the following location: http://www.theimo.com/imoweb/pubs/consult/mep/dam_wg_IMO_DES_0019_PrudentialSecurity.pdf

## PART 3 – DESCRIPTION OF THE ISSUE

1) has a net amount owing to the IMO in both *physical transactions* and *virtual transactions* on the same monthly *invoice;* and

2) has defaulted in both *physical transactions* and *virtual transactions* through the underpayment of a monthly *invoice*; AND

3) the market participant has only provided a partial payment to remedy the default

In these specific situations, an explicit methodology is required in order to allocate the payment between the default amount for *physical transactions* and the default amount for *virtual transactions.*

This requirement must maintain consistency with the following design objectives of the DAM:

- a single, consolidated monthly invoicing and payments process for *physical transactions* and *virtual transactions;*
- a prudential security construct that clearly separates the residual risk of a default levy for *physical transactions* and *virtual transactions;* and
- the need to ensure that the application of default payments does not distort the relative financial risk characteristics between *physical transactions* and *virtual transactions*.

## PART 4 – PROPOSAL (BY SUBMITTER)

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

It is proposed to revise section 5 of Chapter 2 in the following manner:

- Sections 5.1 and 5.2 provide a preamble to the application of the prudential market rules and will need to be amended to include virtual and physical prudential support obligations.
- Section 5.3 (Calculation of Participant Trading Limit, Default Protection Amount and Maximum Net Exposure), Section 5.4 (Monitoring of Actual Exposure and Trading Limit), Section 5.5 (Calculation of Actual Exposure), Section 5.6 (Margin Call Requirements and the No Margin Call Option), Section 5.7 (Obligation to Provide Prudential Support), and Section 5.8 (Reductions in Prudential Support Obligations), all require amendment to clarify their application to physical transactions only. Physical transactions consist of existing real-time market activity and DAM physical activity.
- A new section, 5A, needs to be inserted to reflect the prudential support obligations required for participation in virtual transactions. This section would follow the same subject flow of sections 5.3 to 5.8, as appropriate.
- The key elements of the prudential support construct for virtual transactions which would be included in section 5A include the following:
    - calculation of the virtual transaction prudential support obligation (includes provisions regarding the market participant's submission of their virtual transaction trading limit;
    - monitoring of actual exposure for virtual activity;
    - calculation of actual exposure for virtual activity;
    - margin call requirements for virtual activity; and,
    - obligation to provide virtual transaction prudential support.

**In addition, the following consequential amendments will be required in order to support the above construct:**

- The additional prudential support provisions of Chapter 2, Appendix 2.3 needs to be amended in order to distinguish between those existing provisions which apply to both *physical transactions* and *virtual transactions* and those which apply to *physical transactions* only.
- Add a new provision to Chapter 3 which allows the IMO to prevent a market participant from submitting *virtual transaction* bids and offers in the event that the market participant has defaulted on an invoice and/or has defaulted on an outstanding *virtual transaction margin call.*
- Consequential amendments are required for Chapter 3, section 6.3 to ensure that these market rule provisions support participant suspension events once the DAM is implemented. This includes a new provision with provisions similar to those outlined in section 6.3.8 to deal with situations in which a market participant remedies a default with respect to *virtual transactions* and wishes to have a *virtual transaction* cease trading order lifted.
- Add a new provision to Chapter 3, section 6.3 which specifies the application of payments from a

| |
|---|
| market participant which only partially remedies a default amount relating to an *invoice* containing both *virtual transaction* AND *physical transaction* settlement amounts owing to the IMO<br>• Amendments to various default levy provisions in Chapter 2, section 8 are required in order to facilitate the determination and application of separate market participant default levies for *physical transactions* and *virtual transactions.* In addition, it is proposed that method of distribution for both of these levies use the same basis of distribution (invoiced amounts relevant to *physical transactions* or *virtual transactions* as applicable). |

## PART 5 – FOR *IMO* USE ONLY

| | |
|---|---|
| ***Technical Panel*** **Decision on Rule** ***Amendment Submission***<br>**MR number: MR-00274-Q00** | |
| **Date submitted to** ***Technical Panel***: September 16, 2004 | |
| **Accepted by** ***Technical Panel*** **as:__General___Urgent __Minor** (please indicate with X) | **Date: N/A** |
| **Criteria for acceptance: N/A** | |
| **Priority: N/A** | |
| **Criteria for assigning priority: N/A** | |
| **Not accepted** (please indicate with X)**:** | |
| **Clarification/interpretation required** (please indicate with X): | |
| ***Technical Panel*** **minutes reference: IMOTP-150-1** | |
| ***Technical Panel*** **Comments:** | |