

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

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

Summary

These amendments propose to use an alternative mechanism to the local market power screens to determine if potentially inappropriate, persistent constrained off import or export congestion management settlement credit (CMSC) payments exist. The basis for the new mechanism would be described in the market manuals. If offers or bids are structured such that a market participant persistently receives potentially inappropriate constrained off import or export payments, the IESO would conduct a price investigation under section 1.4.1 of Appendix 7.6. This proposed amendment, which allows the local market power screens to be bypassed, is required because these screens have not been effective in the investigation of bids and offers relating to CMSC payments for constrained off imports and exports.

Background

The IESO's Market Assessment Unit (MAU) has identified circumstances whereby market participants can structure their import offers or exports bids to receive constrained off CMSC payment amounts that are inconsistent with market design principles and the intent of these payments. Some market participants have determined with reasonable certainty that there will be internal congestion in Ontario, and are consistently offering imports and exports at prices that lie between the shadow price near the intertie and the zonal clearing price in Ontario. As a result, the transaction is consistently scheduled in the market schedule but not in the constrained schedule, and the market participant receives a constrained off CMSC payment.

The MAU questioned the appropriateness of making constrained off CMSC payments to a market participant calculated in the usual manner for a transaction that is consistently constrained off by the IESO with almost no probability of delivery. They pointed out that these CMSC payments are not consistent with the market design principle of efficiency which states that: "The market should promote allocative, productive and dynamic efficiency in the provision of electricity by minimizing the total resource costs of providing power to all customers". The Market Surveillance Panel (MSP) asked the MAU to seek a market rule amendment to deal with the issue.

An issue paper on the subject was prepared and is attached to the market rule amendment submission document MR-00306-Q00, located at the following web location:

http://www.theimo.com/imoweb/pubs/mr/MR_00306-Q00.pdf

Under existing market rules, before undertaking an analysis to determine if an adjustment to a CMSC payment is appropriate, the IESO must first undertake an initial investigation using local market power screens to determine if local market power exists. These screens are described in section 1.3 of Appendix 7.6. The local market power screens have not been effective in the investigation of bids and offers in those cases of CMSC payments for constrained off imports and exports just described.

The IESO has considered alternative solutions and discussed them with affected stakeholders. Proposals ranged from automatic settlement-based solutions that would impact all intertie transactions,

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to case-by-case investigations of each possible instance of the identified behaviour. The automatic solution was discounted by stakeholders at working sessions since they asserted it would be inappropriate for all intertie transactions to be affected by a proposal intended to address the behaviour of just a few market participants, and because valid alternative pricing could not be established in many cases. The IESO concurs with this stakeholder feedback.

The Stakeholder Engagement Plan relating to the issue may be found at the following web location: http://www.theimo.com/imoweb/pubs/consult/se10/se10_CO-stakeholder-plan.pdf

Discussion

Additional stakeholding has led to the development of a proposed solution that would bypass the local market power screens of section 1.3 in Appendix 7.6 and continue use of the price investigation process and CMSC adjustments specified in section 1.4 of Appendix 7.6 as the means to address constrained off imports and exports.

Under this proposed amendment, an alternative to the screens would be used to determine if persistent constrained off import or export payments exist. The basis for the new mechanism would be described in market manuals.

To enable this solution, section 1.2, Investigation of Local Market Power, would be amended to bypass the local market power screens. Under a proposed new section 1.2.1A the *IESO* would undertake an analysis as set out in the applicable manual to determine if persistent, potentially inappropriate constrained off import or export payments exist. The market manual would contain:

- criteria for determining what constitutes persistent constrained off imports and exports; and
- the manner for determining an initial estimated replacement price for the price that is under investigation.

These new mechanisms would enable the IESO to identify cases where persistent constrained off import or export payments exist. A further analysis (i.e. the price investigation of section 1.4) would then be undertaken to determine if the payments are inappropriate, warranting the recalculation of the CMSC payments. See the proposed new section 1.2.1B.

The proposed rule amendment of sections 1.2.1A and 1.2.1B are guided by the recognition that establishing the intent of a market participant is difficult. Thus the determinations under the proposed rules are based on the results of the events, rather than the uncertain intent of the market participant. For example, section 1.2.1A is based on the occurrence of “persistent constrained off events involving a boundary entity¹” and section 1.2.1B is based on persistent “potentially inappropriate payments for constrained off events involving boundary entities” rather than on perceived market participant behaviour.

Amendment proposal MR-00306-R01 contains the amendments to section 1.4, Price Investigation, that are necessary to ensure that constrained off imports and exports are afforded the same treatment under

¹ To be consistent with the market rules, the defined terms “constrained off event” and “boundary entity” are used when referring to constrained off imports and exports.

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the price investigation of section 1.4.

PART 4 – PROPOSED AMENDMENT**1.2 Investigation of Local Market Power**

1.2.1 Subject to sections [1.2.1B](#), 1.2.2 and 1.2.6, where the *IESO* determines that a *constrained on event* or *constrained off event* may have occurred, the *IESO* shall conduct the analyses referred to in section 1.3 to establish whether local market power existed and as a preliminary step in determining whether the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3 is justified.

[1.2.1A](#) Subject to section 1.2.2, for purposes of identifying persistent *constrained off events* involving *boundary entities*, the *IESO* shall conduct the analysis as set out in the applicable *market manual*. The *market manual* shall include but not necessarily be limited to describing:

- criteria for determining what constitutes persistent potentially inappropriate payments for *constrained off events* involving *boundary entities*; and
- the manner for determining an initial estimated replacement price for the *investigated price*.

[1.2.1B](#) If the *IESO* determines that a *market participant* persistently receives potentially inappropriate payments for *constrained off events* involving *boundary entities* at one or more *inertie* zones, the *IESO* shall conduct the analysis referred to in section 1.4.1 to determine whether the *investigated price* justifies the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3.

1.2.2 The *IESO* shall not be required to conduct the analyses referred to in sections [1.2.1](#) or [1.2.1A](#) if the *IESO* anticipates that:

- 1.2.2.1 the maximum adjustment to the congestion management *settlement* credit referred to in section 1.1.3 that may be effected on the basis of such analyses and of the analysis referred to in section 1.4.1 would not exceed the threshold amount *published* by the *IESO* pursuant to section 1.2.3; or

- 1.2.2.2 the impact of the price contained in the *energy bid* or the *energy offer* submitted by the *constrained on facility* or the *constrained off facility* is, in the *IESO's* opinion, not material.
- 1.2.3 The *IESO* shall determine and *publish* the threshold amount referred to in section 1.2.2.1, which shall be the minimum amount of an adjustment to a congestion management *settlement* credit referred to in section 1.1.3 that will, subject to sections 1.2.2.2 and 1.2.6, trigger an obligation on the *IESO* to conduct the analyses referred to in sections [1.2.1](#) and [1.2.1A](#).
- 1.2.4 [Intentionally left blank – section deleted]
- 1.2.5 [Intentionally left blank – section deleted]
- 1.2.6 Where the *IESO* cannot, for any reason, conduct the analyses referred to in section 1.3 in the manner described in that section, it may conduct such other analyses as it determines appropriate either prior to conducting the analysis described in section 1.4.1, if any, or as part of such analysis.
- 1.2.7 Where section 1.2.6 applies:
- 1.2.7.1 the *IESO* shall cease investigation of the *investigated price* where the *IESO* determines that the results of the analyses do not justify the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3; or
- 1.2.7.2 the *IESO* shall conduct the analysis referred to in section 1.4.1 where the *IESO* determines that the results of the analyses referred to in section 1.2.6 reveal that the *investigated price* may justify the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3.

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Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00306		
Subject:	Congestion Management Settlement Credits (CMSC)		
Title:	Constrained off CMSC Payments for Imports and Exports		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	7	Appendix:	7.6
Sections:	1.4		
Sub-sections proposed for amending:	1.4.1, 1.4.3, 1.4.5 and 1.4A		

PART 2 – PROPOSAL HISTORY – SEE MR-00306-R00

Version	Reason for Issuing	Version Date
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

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Summary

See MR-00306-R00

Background

See MR-00306-R00

Discussion

To ensure that market participants are afforded the same treatment under the price investigation of section 1.4, amendments are required to the following sections as a consequence of the amendments to section 1.2 under MR-00306-R00.

Section 1.4.1 is amended to enable other considerations that would be set out in a market manual to be considered in the determination of whether the investigated price of a constrained off event involving a boundary entity justifies re-calculation of the CMSC payment.

Section 1.4.3.2 is amended to allow a market participant to request that the IESO replace an investigated price that may justify a re-calculation of the CMSC payment with an alternate replacement price.

Section 1.4.5.1 is amended to enable the IESO to replace the investigated price with a replacement price that is determined in a manner as set out in the applicable market manual or to use such other value as may be agreed to by the IESO and the market participant.

Section 1.4A is amended to include the criteria listed in that section as justification for the re-calculation of the CMSC payment for persistent constrained off events involving boundary entities.

PART 4 – PROPOSED AMENDMENT**1.4 Price Investigation**

1.4.1 Subject to section 1.4.2, the *IESO* shall conduct an analysis of such factors that the *IESO* considers relevant to a determination of whether the *investigated price* justifies the re-calculation of the congestion management *settlement credit* referred to in section 1.1.3, which factors may include:

1.4.1.1 the price, and variations in the price, of the fuel used by the *investigated facility*;

- 1.4.1.2 the degree to which the prices contained in the *energy offers* or *energy bids* submitted by the *registered market participant* for the *investigated facility* and accepted by the *IESO*, as reflected in the *market schedules* for that *investigated facility*, have varied over time;
- 1.4.1.3 [Intentionally left blank – section deleted]
- 1.4.1.4 market prices and variations in market prices in neighbouring jurisdictions; ~~and~~
- 1.4.1.5 opportunity costs for energy-limited resources; ~~and-~~
- 1.4.1.6 in addition to any of the above factors, which may be applicable for investigations of constrained off events involving boundary entities initiated in section 1.2.1A, such other considerations as set out in the applicable market manual.
- 1.4.2 The *IESO* shall not be required to conduct the analysis referred to in section 1.4.1 and shall cease investigation of the *investigated price* if, in the *IESO*'s opinion:
- 1.4.2.1 the *IESO* does not have sufficient reliable information upon which to base the determination referred to in section 1.4.1;
- 1.4.2.2 the level of effort that would be required to conduct the analysis is large relative to the materiality of the anticipated impact of the *investigated price*; or
- 1.4.2.3 the conduct of the analysis would constitute an inefficient utilization of the *IESO*'s resources, having regard to the *IESO*'s other activities and to the desire to allocate resources to the investigation of *energy offers* and *energy bids* that are most likely to require remedial action pursuant to this Appendix.
- 1.4.3 Where, based on the analysis conducted in section 1.4.1 and on the criteria specified in section 1.4A, the *IESO* determines that:
- 1.4.3.1 the *investigated price* does not justify the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3, the *IESO* shall, subject to section 1.8, cease investigation of the *investigated price*; or
- 1.4.3.2 the *investigated price* may justify the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3, the *IESO* shall provide the *registered market participant* for the *investigated facility* with a reasonable opportunity to make representations as to why the *investigated price* does not justify the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3. As part of its representations, the *registered market participant* may

request that the *IESO* apply for the purpose of replacing the investigated price pursuant to section 1.4.5.1:

- a. alternate high end or low end values in place of those prescribed by section 1.3.8, or
- b. an alternate replacement price to the initial estimated replacement price referred to in section 1.2.1A.

~~for the purpose of replacing the investigated price pursuant to section 1.4.5.1.~~

1.4.4 Where, following a consideration of any representations made by the *registered market participant* for the *investigated facility* pursuant to section 1.4.3.2, the *IESO* determines that the *investigated price* does not justify the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3, the *IESO* shall, subject to section 1.8, cease investigation of the *investigated price*.

1.4.5 Where, following a consideration of any representations made by the *registered market participant* for the *investigated facility* pursuant to section 1.4.3.2 and based on the criteria specified in section 1.4A, the *IESO* determines that the *investigated price* justifies the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3:

1.4.5.1 the *IESO* shall replace the *investigated price* with the following as applicable, or such other value as may be agreed to by the *IESO* and the market participant:

- a. in the case of a *constrained on generation unit* or a *constrained off dispatchable load*, the high end of the range determined in accordance with section 1.3.8.1 ~~or such other value as may be agreed to by the *IESO* and the market participant;~~ or
- b. in the case of a *constrained off generation unit* or a *constrained on dispatchable load*, the low end of the range determined in accordance with section 1.3.8.2 ~~or such other value as may be agreed to by the *IESO* and the market participant;~~ or
- c. [Intentionally left blank – section deleted]
- d. in the case of *constrained off events involving boundary entities*, the initial estimated replacement price referred to in section 1.2.1A, or

1.4.5.2 the *IESO* may commence an inquiry pursuant to section 1.6.1.

1.4.5A Where section 1.4.5.1 applies, the *IESO* shall:

1.4.5A.1 re-calculate the congestion management *settlement* credit referred to in section 1.1.3 on the basis of the price referred to in section 1.4.5.1; and

1.4.5A.2 provide notice to the *registered market participant* for the *investigated facility* specifying:

- a. the grounds and associated information upon which the *IESO* is relying in support of its intention to use, for *settlement* purposes, the re-calculated congestion management *settlement* credit referred to in section 1.4.5A.1;
- b. an estimate of the replacement price for the *investigated price* referred to in section 1.4.5.1; and
- c. the right of the *registered market participant* to request, within five *business days* of the date of receipt of the notice, an inquiry pursuant to section 1.6.1.

1.4.6 Where, following a consideration of any representations made by the *registered market participant* for the *investigated facility* pursuant to section 1.4.3.2 and the criteria specified in section 1.4A, the *IESO* determines that the *investigated price* may justify the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3, the *IESO* may commence an inquiry pursuant to section 1.6.1.

1.4.7 [Intentionally left blank – section deleted]

1.4.7.1 [Intentionally left blank – section deleted]

1.4.7.2 [Intentionally left blank – section deleted]

1.4.7.3 [Intentionally left blank – section deleted]

1.4.8 Where a *registered market participant* requests an inquiry pursuant to section 1.4.5A.2c within the time referred to in that section, the *IESO* shall not take any action pursuant to section 1.4.5.1 and shall conduct an inquiry pursuant to section 1.6.1.

1.4.9 Where a *registered market participant* does not request an inquiry pursuant to section 1.4.5A.2c within the time referred to in that section, the *IESO* shall use, for *settlement* purposes, the re-calculated congestion management *settlement* credit referred to in section 1.4.5A.1.

1.4A Criteria for Re-calculating Congestion Management Settlement Credits

1.4A.1 Having established in section 1.3 that local market power existed [or that persistent constrained off events involving a boundary entity exist pursuant to section 1.2.1A](#), the re-calculation of the congestion management *settlement* credit referred to in section 1.1.3 shall be justified if the *IESO* establishes that the *investigated price* is not consistent with:

- 1.4A.1.1 the marginal costs of the *generation facility* that received the congestion management *settlement* credit;

- 1.4A.1.2 opportunity costs or replacement energy costs of a *generation facility*, *dispatchable load facility* or *boundary entity*; or
- 1.4A.1.3 value or benefits of consumption for a *dispatchable load facility* or an exporting *boundary entity*,

and such other additional values, benefits or costs as the *IESO* may determine relevant.

1.4A.2 Such values, benefits, and costs referred to in section 1.4A.1 will be based on information available to the *IESO* at the time of its decision under section 1.4, which may be:

- 1.4A.2.1 estimated information available to the *IESO*; or
- 1.4A.2.2 information provided by the *registered market participant* as part of its representations under section 1.4.3.2 or otherwise.

PART 5 – IESO BOARD DECISION RATIONALE

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