



## Market Rule Amendment Written Submission

This form is used to provide comment on a *market rule* amendment under consideration by the *IESO*. Please complete all four sections of this form and submit the completed form by email or fax to the following:

Email Address: [Rule.Amendments@ieso.ca](mailto:Rule.Amendments@ieso.ca)  
 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 *IESO* 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 *IESO* 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.                                |   |
| Name: <u>Manitoba Hydro</u>  |   |
| (if applicable) <i>Market Participant / Metering Service Provider</i> No. <sup>1</sup> : _____ | <i>Market Participant Class</i> : _____ |
| Telephone: <u>204-474-3641</u>   | Fax: <u>204-453-5359</u>                |
| E-mail Address: <u>khunter@hydro.mb.ca</u>   |   |

### PART 2 – MARKET RULE AMENDMENT REFERENCE

|   |   |
|---|---|
| <b>Type of Rule Amendment Being Commented on</b> (please indicate with x):  |   |
| X <input type="checkbox"/> Amendment  | <input type="checkbox"/> Proposed Rule Amendment <input type="checkbox"/> Recommended Rule Amendment Submission |
| <b>MR Number:</b> <u>MR-00306-R00 Version 4.0 (Constrained off CMSC Payments)</u>   |   |
| This <i>Market Rule</i> number is located on the “Current Market Rule Amendment” web page.                                  |   |
| <b>Date Relevant Amendment Submission, Proposed or Recommended Rule Amendment Posted for Comment:</b> <u>April 21, 2006</u> |   |

<sup>1</sup> This number is a maximum of 12 characters and does not include any spaces or underscore.

**PART 3 – COMMENTS ON RULE AMENDMENT**

Provide your comments.

Further to the IESO's April 21, 2006 email titled "Correction re: MR-00306 Constrained off CMSC Payments in Designated Watch Zones - Request for Review and Comment", Manitoba Hydro offers the following comments on MR-00306-R00 Version 4.0 (the Proposal).

These comments build on the November 23, 2005 comments of Manitoba Hydro on this same subject. Those comments are available at: [http://www.ieso.ca/imoweb/pubs/consult/se10/se10\\_CO\\_20051123-ManitobaHydro.pdf](http://www.ieso.ca/imoweb/pubs/consult/se10/se10_CO_20051123-ManitobaHydro.pdf)

These comments are not intended to imply the behavior of any market participant(s).

1. Proposal Increases Uncertainty and will Negatively Impact Supply

Manitoba Hydro finds that under the Proposal, there will be significantly increased uncertainty of outcome for suppliers into the Ontario market with resources in Constrained Off Watch Zones. At the present time, it is Manitoba Hydro's understanding that the CMSC payments are designed to make market participants financially indifferent when being constrained off, based on their competitive offer price. To have an increased possibility that the IESO may arbitrarily attempt to recover additional CMSC payments, beyond that based on the competitive supply offer, is an increased uncertainty in the Ontario market. In the long run, this will likely result in potential suppliers, particularly importers into Ontario, either having to increase their offer price into Ontario by an amount equal to their estimate of the CMSC clawback, reduce the quantity of supply into Ontario, or both. The end result will be reduced imports into Ontario, an increase in the market clearing price, and increase in net costs to load even after the CMSC payment are factored in.

Manitoba Hydro is further concerned that the detrimental effect on imports to Ontario caused by the CMSC proposal will be further compounded by other market rule changes. For example, the IESO's proposal not to consider unavailability of very scarce MISO ramp as a bona fide reason for import transaction failure could also tend to reduce import offers and in turn imports into Ontario. The combined effect of these market rules / manual changes could have an even greater negative effect in reducing the level of imports into Ontario at a time when Environment Canada is predicting another hot dry summer<sup>1</sup>.

2. Recognize CMSC Payments Benefit the Load

Conspicuously absent from the March 29, 2006 and November 16, 2005 meeting discussions, as well as the undated 4 page discussion paper on this subject is any analysis on how CMSC payments benefit the load by attracting additional supply, and the resulting reduction in the market clearing price.

<sup>1</sup> See **Summer 2006: Long Hot and Dry**, Globe and Mail, May 11, 2006, and **In the forecast: Another hot, dry summer**, Toronto Star, May 11, 2006, which noted "Canadian farmers could be in for another frustrating year, and power-sucking air conditioners could again push energy supplies to the limit as Environment Canada predicts a hot, dry summer for most of the country."

**PART 3 – COMMENTS ON RULE AMENDMENT**

The Market Surveillance Panel, in its February 2003 paper stated “Eliminating such constrained off payments would most likely result in higher wholesale electricity prices [Emphasis added] and would also likely require alternative mechanisms to compensate certain generators in order to assure reliability.”<sup>2</sup> Hydro One picked up on this statement and the analysis in Appendix A of the February 2003 report, and in their comments on the issue stated “Assuming annual energy consumption of 140 TWh in the province, Networks estimates that Ontario consumers experienced a reduction in average energy cost of between \$ 125 and \$ 630 million as a result of the reduction in MCP due to Constrained Off payments made between May and December 2002. Thus, based on the data in the CMSC report, Ontario consumers had an overall net benefit of between \$ 62 million and \$ 567 million as a result of Constrained Off payments being made due to transmission congestion. [Emphasis added] The net benefit to the Ontario consumers may have been even higher if the Constrained Off payments were based on the economic value of constrained-off generation, as discussed below, and not on the market value of constrained-off generation as is the case currently.”<sup>3</sup>

In an undated Response to Written Stakeholder Comments Following March 29, 2006 Meeting, the IESO pointed out the above referenced study assumed the elimination of all constrained off CMSC payments. The IESO noted that under the Proposal constrained off payments were not being entirely eliminated – perhaps implying that the February 2003 MSP study was now invalid. Manitoba Hydro submits that a claw back of part of CMSC payments will reduce part of the net benefits of the CMSC payments. The underlying point that CMSC payments benefit the load through a reduction in the market clearing price remains. The evidence on the record is that the increase load costs due to the increase in the market clearing price resulting from the CMSC clawback or partial clawback will be greater or even much greater than any savings in CMSC payments.

The IESO’s defense of the CMSC elimination as stated in its undated Response is “while it is possible that there may be some impact on the market clearing price of the proposed rule change there is no reason to expect that it will be major and the change moves in the direction of providing a more accurate price signal of the real resource cost of energy available to the market”. The IESO appears to be admitting, without any current analysis, that the Proposal will have some impact on the market clearing price and that it is an

<sup>2</sup> *Issues related to the constrained off payments to generators and imports*, MSP Discussion Paper, February 2003, page 1.

<sup>3</sup> *Comments On Issues Related To Constrained Off Payments and Transmission Investments*, Hydro One Networks Inc., March 31, 2003, page 2.

<sup>4</sup> IESO Presentation titled *Updated Proposal: Constrained Off CMSC Payments (Imports and Exports)* – dated March 29, 2006, slide no. 12.

<sup>5</sup> *18 Month Outlook: An Assessment of the Reliability of the Ontario Electric System* – April 2006 to September 2007 – dated March 24, 2006

<sup>6</sup> Market Surveillance Panel Report “Constrained Off Payments and Other Issues in Congestion Management”, July 3, 2003, page 8.

**PART 3 – COMMENTS ON RULE AMENDMENT**

increase, but that the increase in the market clearing price is a good thing as it provides a more accurate price signal of the energy resource cost. Manitoba Hydro suggests that the load within Ontario may not see an increase in the market clearing price as a good thing.

3. More Market Rules Certainty is Needed

Manitoba Hydro is extremely concerned over the vague description of Initial Replacement Price as described the IESO at the March 29, 2006 meeting on this topic<sup>4</sup>. The IESO describes that this Initial Replacement Price “**can be based on whatever data IESO considers suitable**”[emphasis added]. Manitoba Hydro participates in other markets, and has never seen a market operator attempt to grant itself such broad and arbitrary power. In essence, market participants will now be offering into a market with vaguely defined rules with respect to the CMSC, and the IESO can resettle transactions after the fact based on whatever data it considers suitable. Even representatives of the load in the March 29, 2006 meeting expressed concern about the level of flexibility the IESO is asking for under this proposal.

Manitoba Hydro contends that the discretion that the IESO is proposing to grant itself in many ways amounts to a unilateral amendment of the energy sale contract terms. Market participants need to have more certainty as to the rules they operate under before they offer power into the IESO market.

The IESO is planning to put most of the pertinent details of the CMSC review process in the market manuals. Manitoba Hydro believes that putting such significant items into the market manuals is inappropriate. The draft Content of Market Rules - Level of Detail presented at the March 7, 2006 meeting of the Technical Panel supports this conclusion. In particular:

2b) “The market rules specify the rights, authorities and obligations of market participants and the IESO. The market rules also specify conditions under which rights and authorities may be exercised and obligations must be met.”

2d) “The market rules contain provisions necessary to understanding the market rules themselves such as definitions and rules of interpretation.”

3e) “The IESO is accountable for determining settlement amounts effectively and efficiently as required by the market rules. Settlement equations shall be stated in the market rules, but go into an appendix together with a descriptive overview. The equations shall be described in both words (i.e. word equations) and in mathematical terms.”

3 f) “For determining whether information, other than rights, authorities and obligations, is to be included in the market rules, the following criteria are to be considered:

- i. Potential for significant financial impact on market participants;
- ii. Potential for significant impact on the reliable operation of the IESO-controlled grid;
- iii. Necessary for understanding the market rules; or
- iv. Necessary for avoiding disputes.”

Manitoba Hydro has just recently learned from conversations with IESO that in addition to the level of detail in the market rules and market manuals, there is an additional level of detail that market participants are expected to comply, but is not publicly available anywhere. The IESO has what it describes as a black box and that there is more to actual reviews than is in the manuals. Therefore, even the current IESO CMSC review process is a mystery based on

**PART 3 – COMMENTS ON RULE AMENDMENT**

documents that are out in the public. How does the IESO expect market participants to comply with the rules within its black box when it is not even public?

Given the significance of the CMSC review process, much greater detail with regard to the entire review process including examples of formulas the IESO proposes to use in the resettlement of congestion credits should be explicitly stated in the market rules, and go through the full stakeholdering process.

4. Proposal May or May Not Improve Treatment of Imports

Previous IESO options proposed to treat importers to Ontario differently than generation within Ontario. Specifically, under previous options, importers would be subject to CMSC tests that generation within Ontario would not be subject to. Manitoba Hydro acknowledges the IESO's recognition of this issue and that this new proposal may provide for a more equitable treatment of imports in comparison with local Ontario generation. However, because many key details "**can be based on whatever data IESO considers suitable**"[emphasis added], Manitoba Hydro can not be sure that imports will indeed be treated fairly.

5. Time to Rewrite Appendix 7.6 in Plain Language

In a Aug 3, 2005 memo to the Technical Panel, the IESO stated "The IESO also requests that the Technical Panel endorse that the IESO re-draft the Local Market Power provisions of the market rules (Appendix 7.6) in "plain language" if, and when, any further amendments are proposed for this section. As demonstrated by the number of clarifying amendments requested by the Panel, the existing rules, in places, are not logically organized or are not clear. The entire section should be re-organized and re-drafted to facilitate reader understanding. Re-drafting at the next opportunity rather than now under MR-00295 is recommended so as not to delay the progress of MR-00295."

We too have found Appendix 7.6 confusing and think the IESO should be using this opportunity to re-draft Appendix 7.6, as they have already recommended.

6. Lack of Transmission Incentives is a Fundamental Market Design Flaw

The root cause of transmission related CMSC payments is insufficient transmission within Ontario, particularly north-western Ontario. As noted in the IESO's November 16, 2005 presentation, and again in its March 29, 2006 presentation on the issue, "N-W region is persistently congested" and "Congestion is very "thick" in the N-W".

What Manitoba Hydro finds puzzling is that when the IESO issued its 18 Month Outlook<sup>5</sup> only five days earlier on March 24, 2006, it makes no mention what so ever of congestion issues in north-western Ontario. On one hand, the Market Assessment Unit of the IESO is concerned about transmission congestion in the northwest- but on the other hand the unit of the IESO preparing the 18 Month Outlook has no stated concerns about transmission congestion in the northwest. Which view is correct?

This dichotomy between the views of two groups within the IESO serves to highlight a fundamental disconnect or flaw in the design of the market – there are no incentives in the market to build or even minimize outages of existing transmission in a manner to reduce congestion

**PART 3 – COMMENTS ON RULE AMENDMENT**

payments. The magnitude of congestion payments is a much needed signal to the transmission system owners and operators to build more transmission or at least minimize the duration of outages. To date, we have not seen such needed transmission being built or even the optimization of scheduled outages.

The IESO Market Surveillance Panel has previously pointed out these problems in its July 2003 report on constraint payments “A constrained transmission system can hinder market efficiency and competition in the electricity market. It can prevent low cost generation from running, thereby requiring replacement by more costly supply. Reduced competition can also result if constraints restrict imports into Ontario, or restrict power flows into areas of the province with few local suppliers. Given that there is inadequate generating capacity in Ontario, reducing congestion must be helpful in making the best use of capacity that does exist<sup>6</sup>”.

We concur with this statement in the July 2003 MSP report, and would like to see the current surplus in the north-west region of Ontario viewed as an underutilized resource for the southern part of Ontario.

7. Persistent Congestion is a Signal Transmission Investment is Urgently Needed

Manitoba Hydro notes there has been a change in the direction of the IESO on the congestion issue, a change away from gaming alleged in the IESO November 16, 2005 presentations. Now it appears the main issue to the IESO is the “persistent” nature of CMSC payments. Again, as noted in the IESO’s November 16, 2005 presentation, and again in its March 29, 2006 presentation on the issue, “N-W region is persistently congested” and “Congestion is very “thick” in the N-W”.

If a region such as the north-west region of Ontario is persistently congested, it follows that there will be persistent congestion payment within the region, and these payments will go to the various market participants with assets in the region. This is not a flaw in the market design – it is how the market was intended to operate. The proper manner to reduce the congestion payments is the build the congestion relieving transmission in accordance with the price signals given by the congestion payments.

For the market to work - the market monitor needs to flag the magnitude of the payments and indicate what savings in congestion payments would occur if identified sections of transmission were built to relieve the congestion. With information on the benefits to the market of building congestion relieving transmission, transmission operators can now study alternatives to relieve the congestion. If the transmission is economic, it should be built. It is also possible that the congestion relieving transmission is not economic – which means over the long run it is better to live with the costs of the congestion than to build the transmission to relieve it.

Years ago, such trade offs were made in the design of the transmission system in northwestern Ontario. Given the value of power at the time, it was better to under build the transmission system, and live with the costs of congestion, which were internalized within Ontario Hydro. Now, times have changed, and the value of power has much increased, and congestion costs can be explicitly seen in the market. The economics of building transmission to relieve congestion have much improved and it is time to revisit the adequacy of the transmission system in northwestern Ontario.

It follows that if the persistence of congestion is really a measure of the adequacy of the transmission system, it is inappropriate to use the persistence of congestion as a threshold test for

**PART 3 – COMMENTS ON RULE AMENDMENT**

market participant behavior. Market participants have no control over the IESO controlled grid. If the transmission system operator takes a key transmission line in an already congested region out of service for several months, there will be persistent congestion, and the market participants should not be held accountable just because the congestion is persistent during the lengthy outage. Instead, the market design should incent the transmission system operator to reduce the length of the outage as this is the best way to minimize the congestion payments.

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

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

The IESO should hold a stakeholder forum on means to evaluate the benefits of and stimulate the construction of needed transmission investment and or optimize transmission outages in Ontario as a means to reduce internal transmission congestion.