



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@ieso.ca
 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 *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* 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: <u>IESO Staff</u>	
(if applicable) <i>Market Participant / Metering Service Provider</i> No. ¹ : <u>N/A</u>	<i>Market Participant Class</i> : <u>N/A</u>
Telephone: <u>416-506-2801</u>	Fax: <u>416-506-2847</u>
E-mail Address: <u>Rule.Amendments@ieso.ca</u>	

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: <u>Intertie Transactions</u>
Title: <u>Settlement Charges for Intertie Transaction Failures</u>
Nature of Request (please indicate with x)
<input type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input checked="" type="checkbox"/> Addition <input type="checkbox"/> Clarification
Chapters: <u>3, 7 and 9</u> Appendix: _____ Sections: <u>TBD</u>
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 *IESO-administered markets*. Include the Chapter and Section number of the relevant *market rules*.

In March 2005 the IESO's Market Assessment and Compliance Division (MACD) established a working group to advise on the effectiveness of the IESO's existing guidelines in reducing intertie transaction failures and to provide advice on revised guidelines. MACD was of the view that its enforcement guidelines – of the market rule provisions dealing with the component of transaction failures perceived as being within the control of market participants – were not effective and needed review.

The working group was chaired by MACD and composed of representatives directly engaged in intertie transactions. Following a series of meetings and the provision of extensive non-confidential data providing details on transaction failures across the different interties from several different perspectives, MACD completed a report summarizing its key finding. This report may be found at the following web location:

http://www.theimo.com/imoweb/pubs/consult/intertieTrading/itfwg_2005nov23_Report.pdf

Section 2 of the report provides an overview of the impact of intertie transaction failures on Ontario system reliability and market performance. Considering the amendments being proposed are enduring and market based, market performance was considered in the development of the settlement solution. While both are considered important, reliability is identified as the primary goal driving enforcement in this instance. This is consistent with the initiatives recently announced by the IESO designed to improve reliability in preparation for summer, 2006,

Section 4 puts forward two proposals. The first is to make the tests contained in MACD's screening guidelines more stringent for import failures from the NYISO and Midwest ISO markets during supply tight days. This change does not require amendments to the rules. The second, more fundamental proposal does require amendment and would no longer treat transaction failures as a compliance matter, except where there appears to be egregious behaviour. Rather, as part of the settlement process, it is proposed that a market participant would compensate the market for transaction failures that are deemed to be under the market participant's control. "The attractiveness of the settlement proposal is that it would remove the stigma associated with the allegation and verdict of market rule breaches and the related administrative burden on market participants and MACD in reviewing and remedying alleged breaches. Transaction failures would no longer be 'compliance' issues; rather market participants would have an incentive to ensure that they navigate the neighbouring markets successfully by virtue of a settlement charge for their failed transactions deemed within their control.¹" This requires a rule change.

Potential egregious conduct associated with transaction failures would continue to be subject to the compliance provisions of section 6 of Chapter 3 (e.g. if it is alleged that the market participant unfairly benefited from transmission rights payments, CMSC or other revenues). At present the compliance penalty formula allows for the recovery of revenues gained from egregious conduct and an appeal to the Officers of the IESO for review and possible adjustment of such a penalty amount. The proposed amendments will remove the penalty amount review by the Officers of the IESO and continue to allow for the used of the Dispute Resolution process as its appeal mechanism.

¹ See the Settlement Proposal on page 11 of the MACD report.

PART 4 – PROPOSAL (BY SUBMITTER)

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

Amendments are proposed to the settlement provisions of Chapter 9, to the provisions relating to compliance with dispatch instructions in Chapter 7, and to the compliance provisions in Chapter 3.

It is proposed to amend the market rules in Chapter 9 “Settlements and Billing” to include a formula for a settlement charge that would apply to all import and export transactions failures that do not fail for “bona fide or legitimate reasons”. The application of this formula would be a settlement charge; it would not be a penalty applied through the compliance process in section 6 of Chapter 3. As such, there would be no breach of the market rules or public posting on the IESO web site. The deterrence would be contained in the continual risk imposed by the application of the proposed settlement charge. This is a market oriented approach. The majority of the working group members support developing more market oriented approaches to addressing transaction failures.

The following general formulas² provide an indication of the settlement charges under consideration. More specific formulations are currently under development with stakeholders under Stakeholder Engagement Plan SE-14: “Real Time Intertie Transaction Failures Integration with Day Ahead Commitment Process”. Their precise determination will be presented as part of the rule amendment proposal.

Settlement Charge for Exports Failures = {Max [0, (Pre-dispatch Price – Real Time Price)] x MWh failed}

Settlement Charge for Import Failures = {Max [0, (Real Time Price – Pre-dispatch Price)] x MWh failed}

A settlement provision would also be required to ensure these settlement amounts are properly coordinated with similar charges for the Day Ahead Commitment Process.

Section 7.5.8B, the provision within Chapter 7 on “Compliance with Dispatch Instructions” would also be amended as follows:

7.5.8B The ~~IMO~~-IESO:

7.5.8B.1 may shall take actions pursuant to section 6.6.10A of Chapter 3; and

7.58B.2 shall assess import or export failure charges as determined in section 3.8C of Chapter 9

where a *registered market participant* associated with a *registered facility* that is a *boundary entity* fails to schedule *energy* or *operating reserve*, in accordance with section 6.1.3 of Chapter 7, with the appropriate scheduling entity, or scheduling entities as the case may be, according to the applicable *interchange schedule*, other than for bona fide and legitimate reasons as determined by the ~~IMO~~IESO. Bona fide and

² In general terms the formulas state that the “settlement charges” equal the greater of zero or the product of the difference in the pre-dispatch and real time price amounts and the amounts of energy involved in the transaction failure.

PART 5 – FOR IESO USE ONLY

Clarification/Interpretation Required (please indicate with x): <input type="checkbox"/>
<i>Technical Panel Minutes Reference:</i> <u>IESOTP 176-1</u>
<i>Technical Panel Comments:</i> _____