Urgent
Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	**MR-00315-R00**		
Subject:	**Congestion Management**		
Title:	**Eliminate Congestion Management Settlement Credit (CMSC) Payments for Linked Wheeling Through Transactions**		
Nature of Proposal:	☐ Alteration	☐ Deletion	☒ Addition
Chapter:	9	Appendix:	
Sections:	3.5		
Sub-sections proposed for amending:	3.5.8 (new)		

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Submit for Technical Panel Review	22 Mar 06
2.0	Incorporate Technical Panel Comments and Submit for IESO Board Approval	29 Mar 06
3.0	Approved by IESO Board	7 Apr 06
Approved Amendment Publication Date:	7 Apr 06	
Approved Amendment Effective Date:	8 Apr 06	

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

This amendment proposes to eliminate congestion management settlement credit (CMSC) payments for linked wheeling through transactions. This amendment is necessary to prevent CMSC payments that are not consistent with the intent of these payments and the purpose of these transactions.

A linked wheeling through transaction allows a market participant to move energy through Ontario from one jurisdiction to another (e.g. from Michigan through Ontario to New York) without the risk of (i) the energy being retained in Ontario and (ii) exposure to the Ontario market price. CMSC payments for such transactions are not appropriate given that the transaction is insulated from the Ontario market price.

This amendment proposal is deemed to be urgent as it meets the following statutory criteria:

- "avoid, reduce the risk of or mitigate the effects of an unintended adverse effect of a market rule" (section 34.1.4 of the Electricity Act, 1998).

The existing market rules regarding CMSC and regarding linked wheeling through transactions are resulting in the adverse impact of creating CMSC payments that are not consistent with the intent of both CMSC payments and linked wheeling through transactions.

Background

<u>Wheeling Through Transactions</u>

A wheeling through transaction is a simultaneous import of energy into Ontario and export of energy from Ontario by a market participant (i.e. the market participant moves energy from one jurisdiction, through the Ontario grid and into another jurisdiction).

When originally developed for the IESO-administered markets, wheeling through transactions were effected by the market participant submitting an import transaction and a separate but simultaneous export transaction. Under this mechanism, referred to as an "implied" wheeling through transaction, diversion of the energy to Ontario may occur if the export leg of the transaction is not scheduled or constrained-off in real-time (either for transmission limitations or for Ontario adequacy), while the import leg of the transaction remains.

Prior to market commencement, stakeholders raised concerns that such diversions were not appropriate given the market participant's intention. Such diversions of energy may also be considered by regulators as a lack of non-discriminatory access offered by the Ontario market design.

<u>Linked Wheeling Through Transactions</u>

The linked wheeling through transaction was introduced in the Ontario market prior to market commencement to address the above energy diversion issues (reference MR-00153 approved by the

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IMO board in November 2001).

A linked wheeling through transaction provides a means for a market participant to move energy from one jurisdiction through Ontario to another jurisdiction and ensure that the import energy is not diverted from the market participant's intended customer in the export market.

The linked wheeling through transaction also provides protection to the market participant against exposure to the Ontario uniform market price. The import leg is paid at the same Ontario price as the export leg is priced, and as long as the import and export leg quantities are the same, the market participant has no net exposure to the Ontario price. Without the linked transaction, if the import energy was to be interrupted for whatever reason, then the export energy would continue to flow from the Ontario market and be charged HOEP until the export bid can be changed by the participant i.e. the export would flow for a minimum of 2 hours.

To effect a linked wheeling through transaction, the market participant is required under the market rules to:

- Submit an import offer, priced at -MMCP (-$2000/MW), and an export bid, priced at +MMCP (+$2000/MW); and
- Identify the import and export as linked.

The IESO evaluates separately the import and export legs of a linked wheeling through transaction, but under the existing market rules, the IESO is required to schedule and dispatch the import and export (including application of constraints) such that both the import and export quantities are equal to the lower quantity that would otherwise have been scheduled and/or dispatched.

The requirements to offer and bid at ±MMCP and identify the import and export as linked are intended to ensure that the import and export legs are "price-takers" and would not be constrained-off in real-time, either for transmission constraints or for Ontario adequacy. The market participant is also signaling that they want the quantities of the import and export legs of the transaction to always be equal.

A market participant conducting a linked wheeling through transaction is indifferent to the Ontario price. This indifference to the Ontario price and the matching of the import and export quantities makes a linked wheeling through transaction a very different transaction than an implied wheeling through transaction, which consists of separate and unlinked import and export transactions. The import leg of a linked wheeling through transaction is never truly imported into Ontario, it is simply passing through.

It should also be noted that the ±MMCP offer/bid prices are strategic prices to achieve the desired linked flows and are not considered to be reflective of the participant's costs (incremental or opportunity or otherwise) of the import or the export.

<u>Frequency of Use of Linked and Implied Wheeling Through Transactions</u>

Since market commencement, market participants have rarely used the linked wheeling through transaction mechanism i.e. less than six such occasions. Implied wheeling through transactions are used far more frequently.

Participants have indicated that implied wheeling through transactions allow the participant more means to manage their risk and realize some reward in the Ontario, source and destination markets. With a linked wheeling through transaction, market participant risk and potential for reward is limited

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to the source and destination markets.

Current Situation Necessitating a Rule Amendment

Since mid-February 2006, a market participant has used a linked wheeling through transaction of approximately 60 MW for 24 hours a day. On occasion, the IESO has had to constrain-off the import leg of the transaction in real-time in order to perform some unique real-time switching on the Ontario interface where the import leg of the transaction is scheduled. This unique switching, which occurs mid-hour and typically lasts 30 minutes, is:

(i) Required to manage real-time inadvertent energy flows between a specific part of Ontario and neighbouring jurisdictions; and

(ii) The result of a prevailing transmission outage on the interface, which not only causes the application of constraints to effect the switching, but also requires more frequent switching.

Because the import is part of a linked wheeling through transaction, the IESO must also constrain-off the corresponding export transaction. Both the import and export legs of the transaction are currently eligible for constrained-off congestion management settlement credit (CMSC) payments. The CMSC payments for the import leg are "capped" as the CMSC payment is calculated on the basis of a 0 $/MW import offer price, not the -$2000/MW offer price (refer to discussion below on MR-00239). However, the CMSC payments for the export leg are not capped and due to the +MMCP price of the export bid, the total CMSC payments for the constrained-off events have been significant (approximately 500 k$ total to date for four constraining-off events).

The IESO has approached the market participant and requested that it stop using the linked wheeling through transaction mechanism and to return the CMSC payments that have already accrued. The market participant has agreed to forego any CMSC payments going forward but only for a period of thirty days. The IESO is investigating avenues to recover the CMSC payments already made to the participant.

In the development of the linked wheeling through transaction market mechanism, the IESO did not foresee the current situation on the specific interface between Ontario and the neighbouring jurisdiction. It is because of the prevailing outage condition on the interface, the need to manage inadvertent flows and the presence of a linked wheeling through transaction at the interface that this situation arose. The transmission outage condition on this interface is expected to last for at least another two months.

Intent of Congestion Management Settlement Credit (CMSC) Payments

CMSC payments are a consequence of the Ontario uniform pricing regime. In the final report of the Market Design Committee, the purpose of CMSC payments was stated:

> "To induce generators and loads to change their outputs or takes to the required levels, a uniform pricing approach thus requires the IMO to compensate participants for any differences between the uniform price and their bids/offers whenever they are "constrained on" or "constrained off" in order to relieve transmission constraints." (Market Design Committee Final Report Volume 1 page 3-8)

CMSC payments are calculated for a transaction by comparing the constrained dispatch schedule (or actual) quantity to the unconstrained market schedule (or economic) quantity and comparing the market

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price to the offer-bid price.

The evolution of CMSC payments has recognized that these payments are to keep the market participant whole to its incremental or opportunity costs as reflected in the participant's offer-bid price. Where the participant's offer-bid price is judged not to be reflective of the incremental or opportunity costs, the market rules allow the IESO to adjust CMSC payments accordingly e.g. the local market power mitigation regime (Appendix 7.6 of the market rules), and capping CMSC payment for negative priced offers (reference MR-00239). Neither of these alternatives address the issue of CMSC payments being made for linked wheeling through transactions.

Discussion

This amendment proposes to amend section 3.5 of Chapter 9 to specify that linked wheeling transactions are not eligible for any CMSC payments.

As noted above, CMSC payments are intended to leave a market participant financially indifferent to being constrained-on or constrained-off. In the current situation of a linked wheeling through transaction, CMSC payments provide a financial benefit, paid by Ontario market consumers, to a market participant that would not be realized if the transaction was allowed to flow as scheduled. In other words, from the Ontario market perspective, the market participant is financially "better off" if their wheeling through transaction is constrained-off compared to their transaction actually flowing as originally scheduled. The impact on the market participant of having its linked wheeling through transaction constrained-off (e.g. exposure in the neighbouring jurisdictions) is a risk that the market participant should manage and should not be mitigated by the Ontario market.

One of the goals for linked wheeling through transactions is to protect the market participant from the Ontario market prices. This protection is accomplished through the constant matching of the import leg and the export leg of the transaction and the requirement for both legs to be "price-takers" by the use of ±MMCP as the bid and offer prices. This protection from the Ontario market should have the corollary result that the market participant should not benefit from the Ontario market i.e. the participant should not receive CMSC payments. A linked wheeling through transactions being eligible for CMSC doubly protects the market participant against exposure to the Ontario uniform price.

The IESO proposes eliminating CMSC payments for linked wheeling through transactions rather than eliminating linked wheeling through transactions altogether as these transactions do provide a useful, if infrequently used, mechanism for market participants to move electricity from one market to another through Ontario thereby promoting regional efficiencies. Linked wheeling transactions are also necessary to provide non-discriminatory access to the Ontario market.

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3.5 Hourly Settlement Amounts for Congestion Management

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Linked Wheeling Through Transactions Not Eligible for CMSC Payment

3.5.8 Notwithstanding any other provision in the *market rules*, a *market participant* shall not be eligible for any congestion management *settlement* credit payments for a wheeling through transaction where the *market participant* effects the transaction by linking an *energy offer* and *energy bid* under section 3.5.8.2 of Chapter 7.

PART 5 – IESO BOARD DECISION RATIONALE

This amendment will prevent congestion management settlement credit (CMSC) payments that are not consistent with the intent of these payments and the purpose of these transactions.