Market Rule Amendment Proposal

PART 1 – *MARKET RULE* INFORMATION

Identification No.: MR-00243-R00	
Subject: Local Market Power	
Title: Urgent Market Rule Amendment: Limiting CMSC Payments to Constrained-off Exports on Uncontested Export Interties	
Nature of proposal (please indicate with X): _X__**Alteration**___**Deletion** ___**Addition**	
Chapter: 7 **Sections:** 1.3, 1.6	**Appendix: 7.6**
Sub-sections proposed for amending: 1.3.3.4 (new), 1.6.6	

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Technical Panel Review	August 6, 2003
2.0	Submitted to Urgent Rule Amendment Committee for Approval	August 7, 2003
3.0	Revised and Submitted to Urgent Rule Amendment Committee for Approval	August 8, 2003
4.0	Approved by the Urgent Rule Amendment Committee	August 8, 2003
5.0	Ratified by IMO Board	August 21, 2003

Approved Amendment *Publication* Date: August 8, 2003

Approved Amendment Effective Date: August 9, 2003 00:00:00 EST

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

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

Summary

It is proposed to allow export transactions to be subject to an inquiry as part of local market power investigations pursuant to Appendix 7.6 of the market rules, and to allow the IMO to limit constrained-off CMSC payments for export transactions on uncontested export interties.

Rule amendments are required where there is limited participation on specific interties to limit CMSC payments to market participants that are not consistent with the intent of CMSC payments (discussed below) and result in the unjust enrichment of certain market participants. Although CMSC payments involving constrained off export transactions have occurred since market commencement, the magnitude of the payments has increased recently due to a newly emerging constraint on the system and due to limited competition behind the constraint.

Accordingly, these rule amendments are considered urgent as they meet the following statutory criteria: “It would avoid, reduce or mitigate the effects of an unintended adverse affect of a market rule.” The recent increase in the CMSC payments to market participants discussed above represents an unintended adverse effect of a market rule.

CMSC and Local Market Power Background

The original intent of CMSC payments within the regime of Ontario uniform pricing was to keep a market participant whole with respect to the profit implied by its market schedule where the market participant has been subject to a constraining dispatch instruction and thereby encourage compliance with dispatch instructions.[1] It was recognized during development of CMSC market rules that CMSC payments may occur in regard to very high prices for bids and offers. However, generally, the CMSC regime was viewed as transitional because it was expected that the market would be moving to locational marginal pricing, and thereby eliminating the need for CMSC payments. Due to this expectation and the view that it would be unlikely for exports bidding at or near $2000 / MWh to be constrained off, it was judged the magnitude of total CMSC payments to any one market participant would not be significant in dollar terms.

Despite this expectation, it was recognized that situations could arise wherein a market participant might be able to exercise local market power so as to achieve excessive and/or inappropriate CMSC payments. To address this, the provision for a local market power review as outlined in Appendix 7.6 was included in the market rules. This review provides for mitigation in those situations where there appears to be market power in a local area of the IMO-controlled grid which leads to large CMSC payments as the result of unusually high or unusually low bid or offer prices. The review considers certain price tests and tests for sufficient competition to establish whether facilities can be investigated. As discussed below, the current rules severely restrict the IMO’s ability to investigate and take action

[1] Strawman – Congestion Management Settlement Credit, IMO Staff and NERA, 9 Dec 99 (Technical Panel document IMOTP 26-6b)

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

with respect to exports.

Issue

It has become clear that a single market participant could receive significant CMSC payments for constrained-off export transactions at a particular interface. Competition for energy withdrawals on this interface is limited or non-existent.

The review and possible adjustment of CMSC payments under the existing local market power framework cannot adequately address these circumstances for the following reasons:

- In October 2002, the market rules were modified (see MR-00200) on the recommendation of the Technical Panel to identify price limits and associated information requirements for dispatchable loads but not exports for consideration in a local market power inquiry, since at the time "the IMO had not observed an exporting boundary entity having, exercising or abusing local market power". This does not explicitly prevent the IMO from pursuing a local market power investigation but could prevent the IMO from seeking a remedy;
- Where there is limited competition, the calculated historical references prices, used as a part of the price test for these exports, are very high. Only a (diminishing) portion of the initial CMSC could be recovered using the reference price based limit; and
- As a result of persistently high and uncontested bidding, the reference price can become so high that the IMO would not be able to begin an investigation

Discussion

The intent of the proposed rule amendments is to allow a review of the CMSC payments for exports and to ensure that the IMO has the ability to recover a portion of any inappropriate CMSC payments that resulted in the market participant being unjustly enriched. Given that export loads have physical access to external markets if constrained off in the Ontario market, alternative supply is likely available from these other sources. To the extent that prices in external markets roughly follow prices in the IMO-administered market, it is likely the replacement price, or opportunity cost is comparable to IMO's energy price.

Bids such as $2000 /MWh for exports out of the IMO-administered markets are artificial in nature for at least two reasons. First, a $2000 bid maximizes the likelihood of an export being scheduled. This is the feature used in the IMO market as the alternative to self-scheduling which is provided in some other markets (e.g. PJM and New York ISO). Note, exports must bid $2000 /MWh to be treated as near firm in order to continue receiving the export, even in situations where the IMO may run short of operating reserve. Secondly, given that the IMO's pre-dispatch prices tend to be higher than the real time energy prices, exports must bid at these higher pre-dispatch price levels in order to be selected and pay the lower real time energy prices.

On competitive interties, many participants consistently bidding high prices run a significant risk of congesting the intertie and creating high zonal prices. Thus they are less likely to bid such prices. Further, in the event bids must be constrained off, it will be the lower priced bids that are selected.

On an uncontested export intertie, however, there is a greater ability for a market participant to consistently bid high and be constrained off at high prices. Under the current regime, very high historical reference prices would be established and such participants would receive large CMSC payments.

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Description of Proposed Rule Amendments

The rules would be modified to indicate what would be considered an uncontested export intertie for energy withdrawals and to allow the application of local market power rules in these circumstances.

It is proposed that the local market power rules would be changed to allow the review of constrained exports, in general, and to permit a review independent of the price limits implied by the historical reference price. It is also proposed that for exporting facilities at uncontested export interties, price limits would not be established by the calculated historical reference price, but by the current zonal energy price. From this, an allowed price limit could be calculated, which is a value between 110% and 150% of this reference price (based on current duration factors). This also establishes the price on which the revised CMSC would be calculated. Thus if the market price for energy is $100 and the price limit becomes $150, the CMSC after adjustment would be calculated as the difference, or $50 per MWh in this case.

Under the local market power rules, there would still be checks to confirm that the constraint is transmission induced, and that there is insufficient competition to alleviate the constraint. Also, as is normal for these reviews, the participant would have opportunities to provide additional information to the IMO in the event they feel the revised CMSC payment is unfair, since they may have incurred considerable additional costs or lost opportunities due to the constrained off export.

The intent of this approach is to modify the local market power rules, to ensure the IMO can recover an appropriate portion of any CMSC payments. Rather than an up-front adjustment to the CMSC payment, an after-the-fact recovery is preferred for two reasons:

- It is possible that a participant at the uncontested export intertie is constrained off when there are several alternative resources available to respond to the constraint problem, within Ontario or possibly at another intertie. This might occur for example when the export's bid prices are lower than typical. In this case, the IMO could conclude there is sufficient competition and no further review or settlement adjustment would be considered.
- There could well be circumstance where the loss of the export leads to significant costs or lost opportunities for the exporter. In this situation the normal approach for the local market power review is to allow the participant to provide additional information, with the ability to establish a fairer CMSC payment related to the specific circumstance.

PART 4 – PROPOSED AMENDMENT

Appendix 7.6 – Local Market Power

1.3 Initial Local Market Power Screens

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1.3.3 For the purposes of section 1.3.2, the *reference prices* shall be:

1.3.3.1 the *historical reference price* representing *business days* between the hours of 07:00 and 23:00 EST for the *investigated facility*; or

1.3.3.1A the *historical reference price* representing all time periods other than those specified in section 1.3.3.1 for the *investigated facility*,

as the case may be depending on whether the *investigated price* was submitted for the time period indicated in section 1.3.3.1 or section 1.3.3.1A, referred to as P_h, or

1.3.3.1B where permitted by section 1.3.4, such alternative *reference price*, if any, as may be established by the *IMO Board* and published pursuant to section 1.3.4, referred to as P_a; and

1.3.3.2 the market price for *energy* determined for the *dispatch interval* to which the *investigated price* relates, referred to as P_m,

provided that,~~,~~

13.3.4 ~~-~~if *dispatch data* that has been accepted by the *IMO*, as reflected in the *market schedules* for that *investigated facility*, is not available in respect of the *investigated facility* for at least fifteen of the ninety days comprising the period over which the relevant *historical reference price* referred to in sections 1.3.3.1 and 1.3.3.1A is calculated, or

1.3.3.5 if the *investigated facility* is a *boundary entity* withdrawing *energy* from the *IMO-administered markets* at an *intertie* that has been designated by the *IMO* as an uncontested export *intertie*, being an *intertie*:

a. where at least ninety percent of the withdrawals over that *intertie* in the ninety days prior to such designation have been accounted for by one *market participant*, or

b. which is uncontested in accordance with criteria stipulated by the *IMO Board* (which criteria shall also specify the factors allowing revocation of the designation).

sections 1.3.3.1 and 1.3.3.1A shall not apply and only the *reference price* referred to in section 1.3.3.2 shall be used for the purposes of section 1.3.2.

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1.6.6 The *IMO* shall determine the range referred to in section 1.6.1 with respect to an *investigated facility* that is a *constrained on dispatchable load* or a *constrained off dispatchable load* ~~(excluding *boundary entities*)~~ in accordance with the following:

PART 5 – IMO BOARD COMMENTS