

# Memorandum

**To:** MARKETS COMMITTEE OF THE BOARD OF DIRECTORS  
of the Independent Electricity System Operator

**Presenter:** Michael Lyle, Vice President, Legal Resources and Corporate Governance  
Chair, IESO Technical Panel

**Date:** August 25, 2020

**Re:** Transmission Rights Clearing Account Disbursements (Market Rule Amendment  
Proposal MR-00443-R00)

**Purpose of Item:** Recommendation for Approval to the Board

## Executive Summary:

The IESO is seeking a decision from the IESO Board on a proposed market rule amendment that will revise the transmission rights clearing account disbursement methodology (MR-00443-R00). The Technical Panel unanimously recommended this proposal to the IESO Board for consideration.

## Significant Issues, Risks and Opportunities:

The proposed changes to the market rules would see all surplus amounts in the transmission rights (TR) clearing account, above the reserve threshold, disbursed to market participants proportionately based on the type transmission service charges paid. Ontario loads contribute a much greater share (~98%) of total transmission costs compared to exporters and therefore under this proposed market rule amendment, Ontario loads will receive a larger proportion of the disbursement. This will result in both increased equity, whereby, Ontario loads will receive a greater portion of the disbursement, and will lead to increased efficiency in the export market by reducing the expectation of a future disbursement for exporters.

**Background:**

The transmission rights clearing account comprises the proceeds from transmission rights auctions as well as congestion rents collected via the intertie congestion price (ICP). Withdrawals from the account comprise of payouts to transmission rights holders which occur on a monthly basis. The IESO Board authorized a reserve threshold of \$20M to be maintained in the account to manage situations where transmission rights payouts exceed the proceeds from the transmission rights auction and collection of congestion rents. Currently, any residual or surplus is paid out to market participants based on how much energy they withdraw on a semi-annual basis, measured at all registered wholesale meters and intertie metering points. transmission rights clearing account disbursements are authorized by the IESO Board.

**Proposal and Analysis:**

In May 2017, the Ontario Energy Board's Market Surveillance Panel (MSP) issued a recommendation to the IESO to A) revise the manner in which it allocates disbursements from the TR clearing account such that disbursements are proportionate to transmission service charges paid over the relevant accrual period; and B) not disburse any further funds from the TR clearing account until the allocation methodology has been changed.

The IESO engaged the Brattle Group (through a competitive process) and issued a public report that recommended allocating 100% of the surplus funds to Ontario consumers. The rationale for this approach is that Ontario consumers pay the long-term costs of the transmission system and interties through regulated rates, thus should receive benefits generated from the transmission system.

The IESO presented the findings of the Brattle Group report and the proposed changes to the TR clearing account disbursement methodology with electricity traders and Market Development Advisory Group (MDAG) members. Stakeholder feedback was primarily received in two areas: the distribution methodology and the effective date of the rules.

After having reviewed stakeholder feedback, the Brattle report and the MSP recommendation, the IESO is now proposing to revise the TR clearing account disbursement methodology, in line with the MSP recommendation to disburse excess funds in the TR clearing account to market participants proportionately based on transmission service charges paid. Additionally, the IESO modified its proposal on the effective date.

The IESO presented its revised proposal at the June 23, 2020 Technical Panel meeting where the panel voted unanimously to recommend this proposed market rule amendment to the IESO Board.

**Next Steps / Implementation:**

I recommend that the Board accept the unanimous vote and recommendation of the Technical Panel to approve market rule amendment MR-00443: Transmission Rights Clearing Account Disbursements, with an effective date of May 1, 2021.

Michael Lyle

Cc: IESO Records

Encls.

- a. Market Rule Amendment Proposal form
- b. Technical Panel Materials
  - i. Memo to Technical Panel from IESO staff
  - ii. TP member Rationale
- c. Stakeholder feedback summary, stakeholder engagement and Technical Panel
- d. Consumer Impact Assessment
- e. Draft Board Resolution