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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00443-R00		
Subject:	Change in transmission rights clearing account disbursement methodology		
Title:	Transmission Rights Clearing Account Disbursements		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	8 & 9	Appendix:	
Sections:	Chapter 8, Section 4.8 & Chapter 9, Section 4.7, 4.8, 6.14		
Sub-sections proposed for amending:	Ch. 7 – 4.8.2 & Ch. 9 - 4.7.1, 4.7.2, 4.8.1, 4.8.3 6.14.5		

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for stakeholder comment	April 1, 2020
2.0	Draft for Technical Panel review	May 19, 2020
3.0	Recommended by Technical Panel	June 23, 2020
4.0	Approved by IESO Board	August 26, 2020
Approved Amendment Publication Date:	August 27, 2020	
Approved Amendment Effective Date:	May 1, 2021	

### 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

The IESO proposes to amend the *market rules* that provide the methodology for the disbursement of surplus funds from the transmissions rights clearing account (*TR clearing account*). The proposed changes to the *market rules* would see all surplus amounts in the *TR clearing account*, above the reserve threshold, disbursed to *market participants* proportionately based on *transmission service charges* paid.

#### Background

The *TR clearing account* comprises the proceeds from *TR auctions* as well as congestion rents collected via the *intertie congestion price (ICP)*. Withdrawals from the account comprise of payouts to TR 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 TR payouts exceed the proceeds from the *TR 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 *RWMs* and *intertie metering points*. *TR clearing account* disbursements are authorized by the *IESO Board*.

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 has 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. In-person stakeholder feedback was received at both the November and December MDAG meetings as well as written stakeholder feedback. Further information on the Market Development Advisory Group, including presentations and stakeholder feedback can be found on the MDAG [webpage](#).

After having reviewed stakeholder feedback, the Brattle report and the MSP recommendation, the IESO is 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.

## PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

### Discussion

The IESO is proposing the following changes to Chapters 8 and 9 of the *market rules* to adjust the disbursement methodology used when disbursing surplus funds from the *TR clearing account*.

### Chapter 8

Section 4.18.2

This sub-section is being modified to provide clarity in the wording.

### Chapter 9

Section 4.7.1 & 4.7.2

This sub-section is being modified to reflect the proposed changes to the disbursement methodology. The total disbursement amount will be divided into two pools based on the type of *transmission service charges* paid by *market participants*. One pool will be disbursed among *market participants* that have paid *export transmission service (ETS)* charges and a second pool will be disbursed among *market participants* that have paid provincial transmission service (PTS) charges. Within each pool, disbursements to individual *market participants* will be on a pro-rata basis across all allocated quantities of *energy* withdrawn at either *RWMs* or *intertie metering points*.

Section 4.8

The recovery of short-term funds to cover a shortfall within the *TR clearing account* have been moved out of section 4.8.1, which is for funds that are recovered on a pro-rata basis on *energy* withdrawn at all *RWMs* and *intertie metering points* and moved to section 4.8.3.

Section 6.14.5.2

This sub-section is being changed to reflect the above changes. Where the *IESO* borrows short-term funds to cover a shortfall within the *TR clearing account*, the *IESO* will recover these funds from *market participants* based on the same allocation and distribution that is used for disbursements from the *TR clearing account*.

## PART 4 – PROPOSED AMENDMENT

### Chapter 8 - Physical Bilateral Contracts and Financial Markets

#### 4.18 TR Clearing Account

- 4.18.2 Subject to section 4.18.3, the *IESO Board* may, at such times as it determines appropriate, authorize the debit of funds from the *TR clearing account* [in accordance with section 3.6.3 of Chapter 9](#) for the purpose of using those funds to offset ~~the transmission services charges~~ [referred to in section 3.6.3 of Chapter 9](#).

## Chapter 9 – Settlements and Billing

### 4.7 TR Clearing Account Disbursements

4.7.1 Disbursements from the *TR clearing account* ordered by the *IESO Board* pursuant to section 4.18.2 of Chapter 8 shall be distributed ~~to each market participant ‘k’ as a non-hourly settlement amount~~ among market participants based on the proportionate share of all transmission service charges paid during energy market billing periods immediately preceding the current energy market billing period, in accordance with this section 4.7.

4.7.1.1 The portion of the total disbursements from the *TR clearing account* allotted to market participants that have paid provincial transmission charges shall be disbursed to market participants on an individual basis as a non-hourly settlement amount according to its each market participant’s proportionate quantity of energy withdrawn from the *IESO-controlled grid* allocated quantity of energy withdrawn at all *RWMs* and excluding *intertie metering points* during energy market billing periods immediately preceding the current energy market billing period, as determined by the *IESO Board*, in the manner described in sections 4.7.2 and 4.7.3.

4.7.1.2 The portion of the total disbursements from the *TR clearing account* allotted to market participants that have paid export transmission service charges shall be disbursed to market participants on an individual basis as a non-hourly settlement amount according to each market participant’s proportionate quantity of energy withdrawn from the *IESO-controlled grid* at all *intertie metering points* during energy market billing periods immediately preceding the current energy market billing period, as determined by the *IESO Board*, in the manner described in sections 4.7.2 and 4.7.3.

4.7.2 The portion of any disbursement from the *TR clearing account* payable to market participant ‘k’ in the current energy market billing period shall be calculated as follows:

$$\text{TRCAC}_k = \frac{\text{TRCAD}}{\sum_{K,H}^{M,T} \text{AQEW}_{k,h}^{m,t}} \times \sum_H^{M,T} \text{AQEW}_{k,h}^{m,t}$$

For market participants that have paid provincial transmission service charges in the energy market billing periods immediately preceding the current energy market billing period, as determined by the *IESO Board*:

$$\text{TRCAC}_k = \text{TRCAD}_L \times \sum_H^{M,T} [(\text{AQEW}_{k,h}^{m,t}) / \sum_{K,H}^{M,T} (\text{AQEW}_{k,h}^{m,t})]$$

For market participants that have paid export transmission service charges in the energy market billing periods immediately preceding the current energy market billing period, as determined by the *IESO Board*:

$$\text{TRCAC}_k = \text{TRCAD}_E \times \sum_H^{I,T} [(\text{SQEW}_{k,h}^{i,t}) / \sum_{K,H}^{I,T} (\text{SQEW}_{k,h}^{i,t})]$$

Where:

$$\text{TRCAD}_L = (\sum_K \text{TD}_C / \sum_K \text{TD}_{C,C1}) \times \text{TRCAD}$$

$$\text{TRCAD}_E = (\sum_K \text{TD}_{C1} / \sum_K \text{TD}_{C,C1}) \times \text{TRCAD}$$

$\text{TRCAC}_k$  = the *TR clearing account credit payable to market participant ‘k’ in the current energy market billing period*

TRCAD = the total dollar value of all disbursements from the *TR clearing account* authorised by the *IESO Board* in the current *energy market billing period*

$\text{TRCAD}_L$  = the portion of the total dollar value of all disbursements from the *TR clearing account* authorized by the *IESO Board* in the current *energy market billing period* allocated to *market participants* that have paid provincial transmission service charges “C” in the *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*

$\text{TRCAD}_E$  = the portion of the total dollar value of all disbursements from the *TR clearing account* authorized by the *IESO Board* in the current *energy market billing period* allocated to *market participants* that have paid *export transmission service charges “C1”* in the *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*

M = the set of all *RWMs ‘m’* ~~and excluding~~ *intertie metering points ‘m’* during *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*

*I* = *intertie metering points ‘i’* during *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*

K = the set of all *market participants ‘k’* during *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*

T = the set of all *metering intervals ‘t’* in *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*

H = the set of all *settlement hours ‘h’* in *energy market billing periods* immediately preceding the current *energy market billing period*, as determined by the *IESO Board*

*C* = the set of all monthly service charge types ‘c’ as follows: 650,651,652

*C1* = the set of all monthly export transmission charge types ‘c’ as follows: 653

## 4.8 Additional Non-Hourly Settlement Amounts

4.8.1 The *IESO* shall, at the end of each *energy market billing period*, recover from *market participants*, on a pro-rata basis across all allocated quantities of *energy*

withdrawn at all *RWMs* and *intertie metering points* during all *metering intervals* and *settlement hours* within that *energy market billing period*, the following amounts:

4.8.1.7 ~~[Intentionally left blank – section deleted] any funds borrowed by the IESO and any associated interest costs incurred by the IESO in the preceding energy market billing period pursuant to section 6.14.5.2;~~

4.8.3 The IESO shall, at the end of each *energy market billing period*, recover from *market participants*, in the manner specified in the applicable *market manual*, the following amounts:

4.8.3.1 [Intentionally left blank – section deleted];

4.8.3.2 [Intentionally left blank – section deleted];

4.8.3.3 any compensation for *capacity market participants* paid in that

~~4.8.3.4 any funds borrowed by the IESO and any associated interest costs incurred by the IESO in the preceding energy market billing period pursuant to section 6.14.5.2;~~

## 6.14 Payment Default

6.14.5 If the IESO borrows short-term funds pursuant to section 6.14.4, it shall recover this borrowing:

6.14.5.1 where the insufficient funds were due to a payment default referred to in section 6.14.4.1 (a) by taking all steps against the *defaulting market participant* as provided for in these *market rules* and as referred to in section 8.1.2.2 and then, if necessary, by imposing the *default levy* in accordance with section 8 of Chapter 2; or

6.14.5.2 where the insufficient funds were due to the circumstances referred to in section 6.14.4.1 (b), in the manner referred to in sections 4.19.3 and 4.19.5 of Chapter 8 and then, if necessary, by recovering from *market participants* proportionately based on transmission service charges paid during all intervals and *settlement hours* within the *energy market billing period* in which the IESO invoices the *market participants*.

~~6.14.5.2.1 Where a *market participant* has paid provincial transmission service charges, recovery pursuant to section 6.14.5.2 shall be recovered individually, on a pro-rata basis across all allocated proportionate to the quantities of energy withdrawn at all *RWMs* and excluding *intertie metering points* during all intervals and *settlement hours* within the *energy market billing period* in which the IESO invoices the *market participants*, in accordance with section 6.14.5.3;~~

~~6.14.5.2.2 Where a *market participant* has paid export transmission service charges, recovery pursuant to section 6.14.5.2 shall be recovered individually, proportionate to the quantities of energy withdrawn at all *intertie metering points* during all intervals and *settlement hours* within the *energy market billing period* in which the IESO invoices the *market participants*, in accordance with section 6.14.5.3~~

6.14.5.3 The portion of any short-term funds borrowed by the IESO to be recovered from market participant 'k' in the current energy market billing period shall be calculated as follows:

For market participants that have paid provincial transmission service charges in the current energy market billing period:

$$\text{TRCAC}_k = \text{TRCAD}_L \times \sum_H^{M,T} [(AQEW_{k,h}^{m,t}) / \sum_{K,H}^{M,T} (AQEW_{k,h}^{m,t})]$$

For market participants that have paid export transmission service charges in the current energy market billing period:

$$\text{TRCAC}_k = \text{TRCAD}_E \times \sum_H^{I,T} [(SQEW_{k,h}^{i,t}) / \sum_{K,H}^{I,T} (SQEW_{k,h}^{i,t})]$$

Where:

$$\text{TRCAD}_L = (\sum_K \text{TD}_C / \sum_K \text{TD}_{C,C1}) \times \text{TRCAR}$$

$$\text{TRCAD}_E = (\sum_K \text{TD}_{C1} / \sum_K \text{TD}_{C,C1}) \times \text{TRCAR}$$

TRCAR = the total dollar value of TR shortfall recovery from the TR clearing account authorized by the IESO Board in the current energy market billing period

## **PART 5 – IESO BOARD DECISION RATIONALE**

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