



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: IESO Staff

(if applicable) *Market Participant /*

Market Participant Class:

*Metering Service Provider No.*¹: N/A

N/A

Telephone: 905-855-6445

Fax: 905-855-6371

E-mail Address: rule.amendments@ieso.ca

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: Congestion Management Settlement Credits (CMSC)

Title: Limiting Constrained Off CMSC Payments to Imports into Designated Chronically Congested Zones

Nature of Request (please indicate with x)

Alteration

Deletion

Addition

Clarification

Chapter: 9

Appendix: _____

Sections: 3.5

Sub-sections proposed for amending/clarifying: 3.5.10 (new)

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*.

Summary

It is proposed that market participants who are offering to inject energy over an intertie into a designated chronically congested zone, as defined in the applicable market manual, shall not be eligible for constrained off congestion management settlement credits (CMSC) where the import transaction is constrained off in the final pre-dispatch run prior to the dispatch hour. At present the chronically congested zones will be defined as those zones designated as constrained off watch zones (COWZ).

The IESO is proposing this amendment as we do not believe that CMSC payments to imports offering into a chronically congested zone are consistent with the original intent of constrained off CMSC payments to generators and importers.

Background

In February 2003, the Market Surveillance Panel (MSP) published a discussion on CMSC payments.¹ The report stated five arguments which are often presented to justify constrained off payments to generators and imports. A facility is considered constrained off if it is not dispatched to produce when its offer or bid is economic. Where a facility is constrained off, it is paid an amount intended to cover its lost opportunity cost that is equal to the excess of the market price over the facility's offer price on all units of energy although it ultimately provides no energy to the market.

It is the IESO's belief that the reasons for justification of constrained off payments are either not applicable or do not provide sufficient value with respect to imports into a chronically congested area.

The reasons and rationale are as follows:

Constrained off payments keep wholesale prices lower than they would otherwise be;

It is the IESO's belief that imports into a chronically congested area are more often inappropriately making the wholesale price lower as there is little likelihood that they will flow.

Constrained off payments enhance reliability by maintaining critical plant in the marketplace, even though such plant may be needed only in certain periods;

This justification is not applicable to imports.

Constrained off payments, together with the corresponding constrained on payments, provide information about transmission bottlenecks that is helpful in identifying areas for investment;

In a zone which has been chronically congested since market opening the need for investment is evident and although it is important to learn where lower priced energy may be available to the Ontario consumers the value of that signal is lost over time.

Constrained off payments provide certain operational benefits to the marketplace with respect to incurring compliance with dispatch instructions;

This justification is not applicable to imports due to the hourly intertie scheduling process in place in Ontario. Incurring compliance is not required, as imports cannot deviate from dispatch

¹ [Discussion Paper: Consultation on Congestion Management Settlement Credits](#)

PART 3 – DESCRIPTION OF THE ISSUE

in the hour.

Constrained off payments compensate for departures from optimality of the configuration of the existing generation and transmission endowment in the province.

This justification applies to domestic generation only.

The MSP continues to report that the majority of the CMSC for constrained off supply occurs in the Northwest (NW) zone, primarily resulting from the bottling of relatively low cost supply due to east-west flow limits.² This continuous internal congestion causes the average shadow price of energy in specific regions to be consistently lower than the uniform price of energy in either the pre-dispatch schedule or the real-time schedule.³ Material and sustained differences between the uniform energy market price and shadow prices create conditions under which facilities are more likely to be constrained off. Constraining off import transactions or generators and constraining on exports or loads is an indicator of oversupply in an area.

There are two intertie import paths into the Northwest zone - Manitoba (MBSI) and Minnesota (MNSI). In 2011, imports on these two paths made up 31% of the unconstrained schedule of supply in the Northwest, but only contributed 16% of the actual supply in the region.

When comparing to all imports on all interties in 2011, CMSC payments for import transactions on MBSI and MNSI in the Northwest which were constrained off accounted for more than 95% of the total import constrained off CMSC payments on all interties. Imports on the MBSI and MNSI interties accounted for 40% of the total imports in the unconstrained schedule but only 20% of the total imports in the constrained schedule. Furthermore, the MBSI and MNSI interties in the NW account for only 6% of the total import transfer capability (summer/winter average) in the IESO administered markets.

Market Design, Principle #1: the principle of efficiency, states “The market should promote allocative, productive and dynamic efficiency in the provision of electricity by minimizing the total resource costs of providing power to all customers”. The disproportionate constrained off CMSC payments to import transactions (demonstrated above) are not consistent with this principle, since these payments are made to import transactions which have a known limited prospect of delivery into a region that has a significant and persistent excess of internal supply.

According to section 6.1.3 of Chapter 7 of the market rules, the real-time import schedule for a dispatch hour is determined using the outcome of the pre-dispatch schedule determined as at the previous dispatch hour and modified as required by the IESO. The IESO will continue to pay CMSC to internal generation that is constrained off and to any import transactions which are constrained off manually by the IESO after the final run of pre-dispatch. The IESO feels that there is a fundamental difference between an import transaction constrained off in the final pre-dispatch schedule and a generator or import transaction constrained off in real-time (by the dispatch schedule for generators or manually by the IESO through a TLRi code for imports). Where an import transaction is constrained off in the pre-dispatch schedule there is sufficient time for the market participant to offer this energy into an alternative market, whereas import transactions and generators constrained off in real-time have no further alternatives for the constrained off supply.

² [MSP Report for the period November 2010-April 2011](#), p 38-39

³ [MSP Report for the period November 2010-April 2011](#), p 36-37

PART 3 – DESCRIPTION OF THE ISSUEDesignation of Chronically Congested Zone

In November 2005, the IESO initiated stakeholder engagement plan SE-10⁴ and posted a discussion paper⁵ describing the issue of constrained off CMSC. MR-00306-R00-R02 authorizes the IESO to establish designated constrained off watch zones (COWZ), currently defined as an area where, for pre-dispatch or real-time, the representative nodal price for the area must be, on average, \$20/MWh below the energy market price for a designated time period. Refer to Market Manual 2.12. The \$20/MWh threshold is an indicator of the ability or likelihood of a facility to be constrained off (the larger the price differential, the greater the likelihood), and was chosen because, through analysis, a threshold greater than \$20/MWh would not have identified the area of concern. The premise behind COWZ was to satisfy the market design principle of efficiency to encourage the generation of electricity to meet the needs of customers at least cost. Currently the only designated constrained off watch zone in Ontario is the Northwest area which includes 5 representative nodes and the Manitoba and Minnesota interties. This designation in the Northwest applies only to facilities injecting energy (imports and generation).

The process behind the COWZ designation has been in use since 2006 to define those regions which are chronically oversupplied and as can be seen from the data presented herein, this is consistent with the Northwest. It is proposed that the designation of a chronically congested zone be defined in a Market Manual and at present that definition will refer to a COWZ designation. This proposed amendment to the market rules does not impact the existing COWZ process and associated market rules and manuals; it simply uses the accepted COWZ designation to define a chronically congested zone.

PART 4 – PROPOSAL (BY SUBMITTER)

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

Amend the market rules such that market participants offering to inject energy into a designated chronically congested zone shall not be eligible for constrained off CMSC payments where the import transaction is constrained off in the final pre-dispatch run prior to the dispatch hour, notwithstanding any other clause in the market rules.

⁴ Stakeholder Engagement SE-10: http://www.ieso.ca/imoweb/consult/consult_se10.asp

⁵ Discussion Paper: http://www.ieso.ca/imoweb/pubs/consult/se10/se10_CO-discussion-paper-20051116.pdf

PART 5 – FOR IESO USE ONLY

Technical Panel Decision on Rule Amendment Submission: Warrants Consideration

MR Number: MR-00395

Date Submitted to *Technical Panel*: June 6, 2012

Accepted by *Technical Panel* as: (please indicate with x)

Date:

General Urgent Minor

June 13, 2012

Criteria for Acceptance: The amendment submission identifies means to better enable the market to satisfy the market design principle of efficiency, specifically that the market should support allocative and productive economic efficiency, encouraging generation and delivery of electricity that meets the needs of customers at the least cost.

Priority: Regular

Criteria for Assigning Priority: The CMSC payments in question are not considered consistent with the original intent of constrained off CMSC payments.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

Technical Panel Minutes Reference: 262-1

Technical Panel Comments: _____