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## Market Rule Amendment Submission

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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 to the following:

Email Address: [Rule.Amendments@ieso.ca](mailto:Rule.Amendments@ieso.ca)

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: <u>IESO Staff</u>   |  |
| (if applicable) <i>Market Participant / Metering Service Provider</i> No. <sup>1</sup> : <u>N/A</u> | <i>Market Participant Class</i> : <u>N/A</u> |
| Telephone: <u>905-855-6128</u>  | Fax: <u>n/a</u>                              |
| E-mail Address: <a href="mailto:rule.amendments@ieso.ca">rule.amendments@ieso.ca</a>                |  |

### PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

|   |  |
|---|--|
| Subject: <u>Congestion Management Settlement Credits (CMSC)</u> |  |
| Title: <u>Limiting Constrained-off CMSC at the Interties</u>    |  |
| Nature of Request (please indicate with x)                      |  |
| <input checked="" type="checkbox"/> Alteration                  | <input type="checkbox"/> Deletion      |
| <input type="checkbox"/> Addition                               | <input type="checkbox"/> Clarification |
| Chapter: <u>9</u>   | Appendix: _____ Sections: <u>3.5</u>   |
| Sub-sections proposed for amending/clarifying: _____            |  |

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<sup>1</sup> 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

The IESO proposes to limit constrained-off congestion management settlement credits (CMSC) for all intertie transactions. Specifically, market participants who are offering to inject or withdraw energy over an intertie shall not be eligible for CMSC payments where the transaction is constrained-off in the final pre-dispatch run prior to the dispatch hour.

This proposal is based on the “Addressing Constrained-Off Payments for Ontario Interties” stakeholder engagement. Further information on this stakeholder engagement can be found on the IESO’s website:

<http://www.ieso.ca/Pages/Participate/Stakeholder-Engagement/Addressing-Constrained-Off-Payments-for-Ontario-Interties.aspx>

#### Background

The IESO has acknowledged that the two-schedule uniform market price system has the potential for unwarranted CMSC payments. In the past, changes have been made to the market rules to limit or eliminate unwarranted CMSC payments. Most recently, the IESO limited constrained-off CMSC payments for imports into a “designated chronically congested area” via [MR-00395-R00](#) (i.e. constrained-off watch zones or COWZ in the Northwest) in October 2012.

Differences between the constrained and unconstrained schedules can create pay-as-bid incentives resulting in imports or exports being offered into the market with little prospect of flowing. Because of these pay-as-bid incentives, bids and offers may not reflect the price spread between markets, and instead be structured to maximize constrained-off CMSC payments. Participants may engage in this behaviour by raising their bid price for exports or lowering their offer price for imports to just below or above the nodal price. This strategy ensures the transaction will likely get constrained-off, maximize CMSC payments, and not be asked to deliver energy.

In its April 2015 report<sup>1</sup>, the Market Surveillance Panel (MSP) recommended that the IESO eliminate constrained-off CMSC payments for all intertie transactions, indicating that intertie traders should not benefit from a strategy of targeting constrained-off CMSC payments by ‘chasing’ the nodal price with no intention of actual purchase or sale of power from the Ontario wholesale market. MSP analysis shows that constrained-off payments to exporters at the interties during the period January 2013 to April 2014 was \$31.6 million, of which \$21.8 million was paid in excess of any reasonable measure of lost profit opportunity.

The IESO acknowledges that the elimination of constrained-off payments to all intertie transactions could result in a change in bid and offer behaviour for remaining transactions to ensure they receive a constrained schedule, and this could result in inefficient dispatch. However, it is also likely to remove bids and offers that have the potential to distort the market and are structured for the sole purpose of attracting CMSC payments. On balance, the IESO believes that the risk of possible inefficiencies is more than offset by the expected benefit of reducing these unwarranted CMSC payments.

<sup>1</sup> [http://www.ontarioenergyboard.ca/oeb/ Documents/MSP/MSP\\_Report\\_Nov2013-Apr2014\\_20150420.pdf](http://www.ontarioenergyboard.ca/oeb/ Documents/MSP/MSP_Report_Nov2013-Apr2014_20150420.pdf)

**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/withdraw energy at an Ontario intertie shall not be eligible for constrained-off CMSC payments where the intertie transaction is constrained-off in the final pre-dispatch run prior to the dispatch hour.

**PART 5 – FOR IESO USE ONLY**

*Technical Panel Decision on Rule Amendment Submission:* Warrants consideration

MR Number: MR-00423

Date Submitted to *Technical Panel*: June 30, 2015

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

General       Urgent       Minor      July 7, 2015

Criteria for Acceptance: The amendment submission identifies means to better enable the market to satisfy the market design principle of efficiency. Differences between the constrained and unconstrained schedules can create “pay-as-bid” incentives resulting in imports and exports being offered into the market with no intention to actually flow, resulting in unwarranted costs being charged to Ontario consumers.

Priority: Regular

Criteria for Assigning Priority: The proposed changes will address recent recommendations made by the Market Surveillance Panel. Analysis has shown that constrained-off payments to exporters at the interties during the period January 2013 to April 2014 was \$31.6M, of which \$21.8M was paid in excess of any reasonable measure of lost profit opportunity.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

*Technical Panel Minutes Reference:* IESOTP 292-1

*Technical Panel Comments:* \_\_\_\_\_