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Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00292-R00		
Subject:	Administrative Pricing		
Title:	Additional Compensation for Dispatchable Loads under Administrative Pricing		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	7	Appendix:	
Sections:	8.4A		
Sub-sections proposed for amending:	8.4A.9 and 8.4A.10		

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Submit for Technical Panel Review	June 9, 2005
2.0	Publish for Stakeholder Review and Comments	June 15, 2005
3.0	Submit for Technical Panel Review and Vote	August 17, 2005
4.0	Recommended by Technical Panel and Submitted to IESO Board for Approval	August 24, 2005
5.0	Approved by IESO Board	September 23, 2005
Approved Amendment Publication Date:	September 27, 2005	
Approved Amendment Effective Date:	December 7, 2005	

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

This proposed amendment applies in circumstances where dispatchable loads are dispatched to consume, and the real-time market clearing prices are later determined to have been incorrect and are administered to a price that is higher than the bid price of these same loads. Under such circumstances, these load market participants are required to pay the administered price despite it being higher than their bid price, with no opportunity to claim compensation. Under the proposed amendment dispatchable loads encountering such circumstances will be entitled to claim compensation equal to the difference between their bid price and the administered price. The proposed amendment only applies during administrative pricing events that extend beyond 48 intervals or that result from a suspension of the market. During these times CMSC payments no longer apply.

This proposed amendment would implement the recommendations of the Market Pricing Working Group on this subject (Issue 28). It proposes to compensate dispatchable loads under administrative pricing in a manner analogous to the compensation currently afforded to dispatchable generators.

Background

Under the existing market rules, for administrative pricing events that last longer than 48 intervals or result from market suspension, compensation to dispatchable loads is restricted to situations where a dispatchable load receives and follows IESO dispatch instructions that require running (load displacing) generation equipment connected to the dispatchable load facility. In this case, the dispatchable load may be eligible – subject to applicable materiality limits - for additional compensation in relation to the fuel or other variable costs for that generation. The existing market rules do not recognize that market participants may incur costs other than generation related costs in complying with dispatch instructions. The IESO Market Pricing Working Group¹ recommends that compensation should be extended to cover such circumstances.

“The Working Group recommends that dispatchable loads should be eligible for additional compensation under administrative pricing in a manner analogous to that currently afforded to dispatchable generators. Subject to materiality limits, dispatchable loads should be compensated for certain provable “out of pocket” costs (with their bid prices serving as a proxy for those costs), but should not be compensated for foregone opportunities. In circumstances where the market has been

¹ The IESO Market Pricing Working Group is a stakeholder forum established to discuss, analyze, and document concerns and issues related to the determination of prices in the IESO-administered markets, and to provide advice and recommendations on potential solutions to specific pricing issues.

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suspended and where, consequently, no bid is available to determine the eligible additional compensation amount, a historical bid benchmark should be used in proxy.” [Reference: “Recommendation for Issue 28, Additional Compensation for Administrative Pricing, Document # 28-2”]

The full text of the working group’s recommendations is contained in the related Market Rule Amendment Submission (MR-00292-Q00). This proposed amendment would implement the recommendations of the working group.

The need for additional compensation arises within the administrative pricing market rules because there is no market schedule and hence no CMSC payments beyond the 48th interval and during periods of market suspension.

Discussion

This amendment proposes to compensate dispatchable loads under administrative pricing in a manner analogous to the compensation currently afforded to dispatchable generators. Subject to materiality limits, dispatchable loads would be compensated for certain provable “out of pocket” costs (with their bid prices serving as a proxy for those costs), but are not compensated for foregone opportunities.

Compensation for out-of-pocket costs:

Under the proposed amendment, dispatchable loads that are dispatched consistent with their bid prices to consume as a result of market prices that are later determined to be incorrect (i.e. an incorrect low market price) continue to be required to pay an administered price that is higher than their bid price. However, they will now be entitled to claim compensation equal to the difference between their bid price and the administered price. The compensation would apply only to those consumption amounts where the corresponding bid price is less than the administrative price. For example, if the dispatchable load submitted a bid with multiple price-quantity pairs where some bid prices are above and some bid prices are below the administrative price, compensation would not apply for any consumption amounts where the corresponding bid price is more than the administrative price.

Under the present market rules dispatchable loads would be “out-of-pocket” under these circumstances because they would incur a higher energy cost than they were willing to pay based on their bid price. This is analogous to a situation whereby a generator was dispatched to run at an incorrect high market price that was later administered to a lower price that did not cover the generator’s out of pocket costs. Generators are able to recover these costs under the present rules during administrative pricing events that extend beyond 48 intervals and during a market suspension. The proposed amendment provides comparable treatment for dispatchable loads.

No compensation for foregone opportunities:

Generators are not compensated under the present market rules for foregone opportunities that would arise in circumstances when they are dispatched off as result of an incorrect low market price that is

² Other than the blackout of 2003, to date there have been no administrative pricing events lasting more than 48 intervals.

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later administered to a higher amount. Similarly, dispatchable loads will not be compensated under this proposed amendment for foregone opportunities that would arise in circumstances when they are dispatched not to consume as a result of an incorrect high market price that is later administered lower.

These circumstances are illustrated in the Market Pricing Working Group discussion paper (see page 7 of the paper) that may be found at the following web site.

http://www.ieso.ca/imoweb/pubs/consult/mep/MP_WG_2005Feb2_Iss28DiscussOptPaper.pdf

Sections 8.4A.9 and 8.4A.10 have been amended to give effect to the recommendations of the Market Pricing Working Group. Under the proposed amendments, market participants would use the existing “notice of disagreement” provisions of the market rules. Using this process is considered to be appropriate in this instance because the circumstances anticipated under this rule amendment are expected to occur rarely² and it is an existing process that can be readily utilized; that is, without changes to market facing settlement processes and with little changes to internal IESO processes. It is also a process that is used within the present administrative pricing market rules under sections 8.4A.13 and 8.4A.15 to correct other inappropriate charges or payments. Such an approach to implementation is also in keeping with the advice of the working group that: “Any work done by the IESO in this matter should be done prudently and within the existing IESO budget.”

The Market Pricing Working Group also postulated circumstances where the market has been suspended and no bid is available to determine the eligible additional compensation amounts. In these circumstances they recommended the use of an historical bid benchmark as a proxy. A new section 8.4A.9A has been added under which the market participant would provide this information based on historical data similar to that used within section 8.4A.6 of the present administrative pricing rules for determining an historical price based on HOEP when the need for administrative prices extends beyond 48 intervals, and in section 8.4A.8.2 during periods of market suspension.

The Market Pricing Working Group recommended that additional compensation paid to dispatchable loads should be recovered from all loads and that only dispatchable loads be eligible for additional compensation. These recommendations are captured in the section 8.4A.9 as amended.

PART 4 – PROPOSED AMENDMENT

Additional Compensation for Complying with Dispatch Instructions

8.4A.9 Where the *IMOIESO* has established an *administrative price* pursuant to sections 8.4A.6 and 8.4A.8.2 and subject to any materiality limits published in the applicable *market manual*,

8.4A.9.1 a *market participant with a generation facility* that has complied with *dispatch instructions* issued by the *IMOIESO* shall be entitled to additional compensation determined under section 8.4A.10, and

8.4A.9.2 a *market participant with a dispatchable load facility* shall be entitled to additional compensation on those consumption amounts where their

bid price is less than the administrative price, equal to the difference between its applicable bid price and the administrative price multiplied by those consumption amounts if:

- *the market participant's bid price, for the level of consumption to which it was dispatched, is less than the administrative price;*
- *the market participant has complied with dispatch instructions issued by the IESO; and*
- *the market participant issues to the IESO a notice of disagreement in accordance with section 6.6 of Chapter 9, and*

_____ the *IMOIESO* shall recover any such compensation *amounts* in accordance with section 4.8 of Chapter 9.

8.4A.9A *If the energy market is suspended and no bid prices are available to make the determination in section 8.4A.9.2 that a bid price is less than the administrative price, a market participant with a dispatchable load facility shall provide to the IESO evidence that its average historical bid price is less than the administrative price. Average historical bid prices shall be determined for each interval from the corresponding interval from each of the four most recent business days or non-business days, as the case may be, prior to the event that gave rise to the administrative price.*

8.4A.10 The compensation referred to in section 8.4A.9.1 shall be calculated as the aggregate of:

8.4A.10.1 the fuel costs or, where applicable, the other costs referred to in section 8.4A.11, and the variable operating and maintenance costs incurred by the *market participant* in complying with the *dispatch instructions* issued by the *IMOIESO*, which fuel costs or other costs and variable operating and maintenance costs shall be subject to verification and audit by the *IMOIESO*; and

8.4A.10.2 subject to section 8.4A.11, an amount equal to 10% of the amount determined pursuant to section 8.4A.10.1,

less the amount of the *administrative price* already paid or payable to the *market participant* under sections 8.4A.6 and 8.4A.8.2.

8.4A.11 Where the compensation referred to in sections 8.4A.9.1 relates to a *generation facility* that is energy limited by design or by bona fide contractual commitments, the *IMOIESO* may accept, in lieu of the costs referred to in section 8.4A.10.1, such assessment of the expected future value or the opportunity costs of the fuel or water consumed:

8.4A.11.1 during the period while *administrative prices* were in effect; and

- 8.4A.11.2 in order to comply with the *dispatch instruction* issued by the IMOIESO;
- as the IMOIESO considers reasonable. Where such value or costs are submitted in lieu of the costs referred to in section 8.4A.10.1, no amount shall be payable pursuant to section 8.4A.10.2 if, in the IMOIESO's opinion, such value or costs include or adequately cover such amount.
- 8.4A.12 Any disputes concerning the additional compensation referred to in section 8.4A.9 shall be resolved using the dispute resolution process set forth in section 2 of Chapter 3.

PART 5 – IESO BOARD DECISION RATIONALE

This amendment will provide equitable market treatment of dispatchable loads as is currently afforded dispatchable generators under comparable circumstances.