



## Market Rule Amendment Submission

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@theIMO.com](mailto:Rule.Amendments@theIMO.com)

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 *IMO* 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 *IMO* 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

<b>Name:</b> Jim Kelbert	
(if applicable) <i>Market Participant / Metering Service Provider No.</i> <sup>1</sup> :	<b>Market Participant Class:</b>
<b>Telephone:</b> (416) 506-2801	<b>Fax:</b> (416) 506-2847
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### PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

<b>Subject:</b> Data, Scheduling, Dispatch, Prices		
<b>Title:</b> Remove Deferred Preliminary/Final Pricing Requirements from the Rules		
<b>Nature of request (please indicate with X):</b> <input checked="" type="checkbox"/> Alteration <input type="checkbox"/> Deletion <input type="checkbox"/> Addition <input type="checkbox"/> Clarification		
<b>Chapter:</b> 7	<b>Appendix:</b>	<b>Sections:</b>
<b>Sub-sections proposed for amending/clarifying :</b>		

<sup>1</sup> This field is restricted to a maximum of 12 characters and does not allow 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 *IMO-administered markets*. Include the Chapter and Section number of the relevant market rules.

The IMO-Board's endorsement not to proceed with the implementation of preliminary and final pricing was sought at its September 5<sup>th</sup> meeting after consultation with the Technical Panel. The following is a brief summary of the reasons cited for seeking the Board's endorsement of this proposal. Attachment A provides the rationale in greater detail. Replacing provisional prices with preliminary and final prices would not necessarily assure more accurate prices; would almost certainly result in all prices changing two days and six days after the fact, leading to confusion by market participants and the broader public; would delay the benefit of price certainty, which would likely complicate the activities of market participants (e.g. hedging arrangements); and would be complex and expensive to implement.

The IMO-Board endorsed the proposal. It is now necessary to remove from the Market Rules the requirement to replace provisional prices with preliminary and final market prices. It is also proposed to remove references to market prices being provisional.

The Market Rules (section 8.1 of Chapter 7) include the provisions for the calculation of preliminary and final prices subsequent to the calculation of provisional prices. The functionality entailed in these provisions is currently required to be implemented ten months after the market commencement date<sup>1</sup>. As described in the Market Rules, the IMO would be required to calculate and publish a preliminary price for each dispatch interval within two days of the end of the dispatch day and a final price within six days. For the reasons noted above, these requirements should be removed from the market rules.

With the removal of preliminary and final pricing within the IMO-administered markets, it is also appropriate to no longer refer to "provisional" market prices and "provisional" market schedules. This reference was necessary to distinguish between the prices and schedules published immediately after each dispatch interval and the preliminary and final prices and schedules published on the timelines noted above. The market rules should only refer to "market prices and market schedules" i.e. the prices and schedules that are published immediately after each dispatch interval.

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<sup>1</sup> the functionality of calculating preliminary and final prices was deferred via a rule amendment approved prior to market start (see section 8.1.3 of Chapter 7)

**PART 4 – PROPOSAL (BY SUBMITTER)**

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

Market Rules, Section 8.1 of Chapter 7 would be revised removing the requirement to replace provisional prices with preliminary and final market prices. Consequential changes would also be made to other sections within Chapter 7 and to Appendix 7.5.

**PART 5 – FOR IMO USE ONLY**

<b><i>Technical Panel Decision on Rule Amendment Submission</i></b>	
<b>MR number:</b> MR-208-Q00	
<b>Date submitted to <i>Technical Panel</i>:</b> September 5, 2002	
<b>Accepted by <i>Technical Panel</i> as:</b> <input checked="" type="checkbox"/> General ___ Urgent ___ Minor (please indicate with X)	<b>Date:</b> September 10, 2002
<b>Criteria for acceptance:</b> Simplifies the market.	
<b>Priority:</b> High	
<b>Criteria for assigning priority:</b> A high priority is chosen so that the proposed rule amendments will take effect before the obligation to implement preliminary and final pricing (section 8.1.3 of Chapter 7) takes effect.	
<b>Not accepted (please indicate with X):</b>	
<b>Clarification/interpretation required</b> (please indicate with X):	
<b><i>Technical Panel</i> minutes reference:</b> IMOTP 111-1	
<b><i>Technical Panel</i> Comments:</b> The Technical Panel endorsed the proposal.	



## Attachment 'A'

Preliminary and Final prices differ from the current, provisional market prices<sup>2</sup> in one key respect: operational metering data is substituted with revenue meter data insofar as it has proceeded through the Validation Estimation and Editing (VEE) process<sup>3</sup> by 2 and 6 calendar days following the trading day (Chapter. 7, section 8.1.2). The key differences between this arrangement and the current regime of settling the market based upon "provisional" market prices is summarized in FIGURE 'A'.

The proposal is to remove the requirement from the IMO Market Rules to replace provisional prices with preliminary and final market prices. This course of action is proposed for the following reasons:

- Preliminary and Final prices will routinely differ from provisional prices posted immediately after each dispatch interval (see also, FIGURE 'B' for a summary of these differences). These differences are likely to be a major source of confusion to both market participants and the broader public. In addition, preliminary/final prices delay the benefit of price certainty until 6 days after each trading day, which will likely complicate the activities of market participants.
- Despite revenue meters having better accuracy requirements than operational meters, IMO analysis has determined that in many cases, preliminary and final prices would in fact be less accurate than the earlier, provisional prices. This arises from the fact that there is no guarantee that revenue metering data available within 6 days of the trading day will have fully completed the Validation Estimation and Editing (VEE) process.<sup>4</sup> If the data has not fully completed the VEE process and Meter Trouble Reports (MTRs) are still unresolved at the time of the final price determination, there may be little or no improvement in the quality of the final price calculated. In the absence of resolved MTR, alternate meter data or estimated meter data will be used in the calculation of the final price and may have an impact on the price, leading to prices being based on 'best estimates' and in some cases, punitive estimates (see also, Ch. 6, sections 11.1.4, 11.1.4A and 11.1.4B). Such punitive estimates in the VEE process are intended to protect the market from "unmetered" participants and are not generally oriented towards an accurate portrayal of true market demand.

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<sup>2</sup> Provisional Prices are currently published within 5 minutes of each dispatch interval and are used for settlement purposes

<sup>3</sup> See also, IMO "Market Rules" Chapter 9, Appendix 9.1 for further information regarding the VEE process.

<sup>4</sup> See also, IMO "Market Rules" Chapter 9, Appendix 9.1 for further information regarding the VEE process. One significant feature of the VEE process is that is defined in terms of business days not calendar days.

- Unlike the current market rules that allow for incorrect provisional prices to be corrected within 2 business days, it is not clear what recourse the IMO or market participants would have if the final prices for a given trading day turned out to be less accurate than the provisional prices.
- Given the Meter Trouble Report (MTR) volumes seen so far and the flow of the VEE process, it is likely unrealistic to assume that the VEE process could easily be overhauled to achieve the kind of results needed for pricing on 2 and 6 day timelines - without extensive new operational resource requirements. The month of July has seen the third consecutive improvement in the average time to resolve an MTR (4.5 days). However, MTR volumes can be quite volatile on a day-to-day basis. As a result, the quality of preliminary/final prices could be quite inconsistent as they may be affected by the number of outstanding MTRs for a given trading day.
- There is a significant amount of infrastructure and software changes that would be required to implement preliminary and final pricing. The modifications required would impact the IMO and probably market participant systems.
- Given that the Market Rules have been already amended to allow the IMO to adjust (i.e. administer) provisional prices up to 2 business days after the trade day if major flaws are detected and given the relative infrequency of these administered prices, there appears to be little benefit in continuously revising market prices.
- Looking ahead to possible, future areas of market evolution such as a Day-Ahead Market, or Locational Marginal Pricing, eliminating the need for preliminary/final pricing would likely simplify these future endeavours somewhat in terms of software and hardware requirements, lower data volumes, and more immediate price certainty.

**FIGURE 'A' - Key differences between the current, provisional pricing regime and preliminary/final pricing**

Current, Provisional Pricing Regime	Future Preliminary/Final Pricing Regime
<ul style="list-style-type: none"> <li>Provisional Prices available 5 minutes after each dispatch interval (except where administrative pricing required.)</li> </ul>	<ul style="list-style-type: none"> <li>Final Prices available 6 days after each dispatch interval</li> </ul>
<ul style="list-style-type: none"> <li>Provisional Prices used for Settlement Purposes</li> </ul>	<ul style="list-style-type: none"> <li>Final Prices used for Settlement Purposes</li> </ul>
<ul style="list-style-type: none"> <li>Provisional market schedules used for Settlement Purposes</li> </ul>	<ul style="list-style-type: none"> <li>Final market schedules using the final market demand, as determined by revenue metering, used for Settlement Purposes</li> </ul>
<ul style="list-style-type: none"> <li>Errors in prices corrected by 2 business days after the trading day using administrative pricing rules<sup>5</sup></li> </ul>	<ul style="list-style-type: none"> <li>Prices revised 2 and 6 days after the trading day</li> </ul>
<ul style="list-style-type: none"> <li>Prices only administered/changed if there is a clear error (e.g. systems disruption, telemetry failure)<sup>6</sup></li> </ul>	<ul style="list-style-type: none"> <li>Prices always revised 2 and 6 days after the trading day for ALL intervals</li> </ul>
<ul style="list-style-type: none"> <li>"Market Demand" determined by OPERATIONAL metering data for generators, less losses and net of interchange schedules.</li> </ul>	<ul style="list-style-type: none"> <li>"Market Demand" determined by REVENUE metering data for generators, less losses and net of interchange schedules.</li> <li>All other aspects of the "unconstrained" run of the algorithm would remain the same</li> </ul>

<sup>5</sup> See also, Administrative Pricing Rules for further details: IMO Market Rules, Ch. 7, section 8.4

<sup>6</sup> Ibid.

**Figure 'B' - Sources of difference between Provisional, Preliminary and Final Prices.**

