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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 or fax to the following:

Email Address: [Rule.Amendments@ieso.ca](mailto: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: <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>905-855-6464</u>	Fax: <u>905-855-6371</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</u>	
Title: <u>Limiting CMSC for Generation Facilities</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: <u>3.5.1</u>	

<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*.

The IESO is proposing market rule amendments to enable the IESO to recover or withhold “self-induced” CMSC payments to generators. These “self-induced” CMSC payments are caused by conditions at the generating plant and not by conditions on the IESO-controlled grid. There are several scenarios where generators could earn inappropriate CMSC revenue. These include CMSC payments made to:

- a non-quick-start generator eligible for a generation cost guarantee whose facility has been scheduled in the constrained schedule at minimum loading point (MLP) for at least its minimum generation block run time (MGBRT);
- a generator dispatched for safety, legal, regulatory or environmental reasons;
- a non-quick-start generator during ramp down; and
- the steam unit of a combined cycle plant.

#### Background

In several of its reports<sup>1</sup> on the IESO-Administered Markets, the Market Surveillance Panel (MSP) has recommended that the IESO pursue a market rule amendment to allow the recovery of CMSC payments which are made to generators when they are unable to follow dispatch instructions for reasons of safety, legal, regulatory, environmental or equipment damage (refer to scenario 2 below). The MSP further recommended that the IESO take similar action to limit CMSC payments where these are induced by the generator strategically raising its offer price to signal the ramping down of its generation<sup>2</sup> (refer to scenario 3 below).

The IESO agrees that these opportunities are inappropriate and should be mitigated. In addition to the scenarios reviewed by the MSP, the IESO believes that there are additional opportunities where generators could earn inappropriate CMSC revenue (refer to scenarios 1 and 4 below). A more detailed description of the four scenarios is described below.

The generator community has met three times over the past seven months and details of these meetings can be found on Stakeholder Engagement page SE-84.

([http://www.ieso.ca/imoweb/consult/consult\\_se84.asp](http://www.ieso.ca/imoweb/consult/consult_se84.asp)).

#### 1) CMSC Payments made to a Generator Eligible for a Generation Cost Guarantee and Constrained for minimum generation block run time (MGBRT)

Once an eligible generator has accepted a guaranteed start under the real-time GCG program (SGOL) or the day-ahead guarantee program (DA-GCG), the IESO applies a manual constraint to ensure that the scheduled output from the generator’s facility is no less than its minimum loading point for at least its MGBRT. A facility that is eligible for SGOL or DA-GCG could earn self-induced CMSC payments by raising the offer price associated with the facility’s MGBRT quantities after constraints have been applied.

<sup>1</sup> Refer to MSP reports released in December 2005 and January 2008.

<sup>2</sup> Refer to MSP report released in January 2009.

### PART 3 – DESCRIPTION OF THE ISSUE

Between December 9, 2009 and January 31, 2010, there were six instances where the MGBRT offer price for a unit was increased after constraints were applied under the guarantee program. The inappropriate CMSC payments totaled \$8400 for 480 MWs. Based on materiality, the IESO did not pursue further data collection.

While historically this type of CMSC payment has not been material, the opportunity to earn inappropriate CMSC still exists.

#### **2) CMSC Payment made to a generator that is unable to follow dispatch instructions in order to avoid equipment damage, or for Safety, Legal, Regulatory or Environmental Reasons**

In accordance with Chapter 7 Section 7.5.3 of the market rules, a market participant may not comply with a dispatch instruction if such compliance would endanger the safety of any person, damage equipment, or violate any applicable law. In order for the IESO to achieve subsequent accurate dispatch schedules, the IESO must constrain the generator to the output the generator requires, potentially resulting in “self-induced” CMSC payments if the offer price associated with that output level exceeds the market clearing price.

Past MSP reports have highlighted instances where self-induced CMSC was discovered, followed by discussions with the generator and voluntary repayment of funds. The number and dollar amount related to past instances may not reflect the future and can only be summarized through manual review of documented cases. The magnitude of this type of CMSC is difficult to estimate due to the unique nature of individual circumstances. While not material at this time, the opportunity to earn inappropriate CMSC payments still exists.

#### **3) CMSC Payments made to Generators Shutting Down**

Slow-ramping generators such as fossil and nuclear units cannot shut down immediately, and their ramping limitations are reflected in the unit’s ramp rate submitted hourly along with its offer. The offer, up to the maximum market clearing price (MMCP), is reflected in both the market and dispatch schedules. If there is a divergence between the market schedule and the dispatch schedule during ramp down, a generator would receive a CMSC payment that may be inappropriately large, depending on the ramp down offer and the length of time the generator requires to ramp down.

In November 2008, the MSP advised the IESO of a situation in which a slow-ramping generator had collected a substantial amount of CMSC (in the order of \$100K per day) as a result of a constrained on dispatch while shutting down. A review of the matter led the MSP to conclude that while there was no wrongdoing on the part of the generator in this situation, the possibility exists for generators in a comparable situation to strategically structure their offers to increase the size of its CMSC payments. The MSP recommended the IESO take action to limit CMSC payments where these are induced by the generator strategically raising its offer price to signal the ramping down of its generation.

Between December 9, 2009 and January 31, 2010, there were 236 unit ramp downs where offer price was significantly higher than the MGBRT offer price, often greater than \$150/MWh, resulting in CMSC payments totalling \$777,000. Based on discussions with industry experts, the IESO estimates that the ramp down cost is approximately 1.2 – 1.3 times the MGBRT offer price. With current gas prices, MGBRT offer prices are in the range of \$35-\$45. In the month of February 2010 alone, the amount of CMSC paid to generators while ramping down (where units offered ramp down MWs at a price greater than their MGBRT offer during ramp down) was \$952,000. If the ramp down offer price were capped at 1.2 to 1.3 times the MGBRT offer price, the avoided CMSC payment would have been in the range of \$800,000.

**PART 3 – DESCRIPTION OF THE ISSUE**

**4) CMSC Payments made to the Steam Unit of a Combined Cycle Plant**

Effective November 12, 2009, the IESO introduced a new procedure that enables combined cycle generators to operate their gas and steam turbines more effectively: the IESO constrains the steam unit according to the number of gas units that are economically scheduled. Since the steam unit no longer needs to be economically scheduled, the generator could submit high offers that are not representative of cost for the steam unit, in order to earn potentially large CMSC payments. In theory, the steam unit has no fuel costs because it is fuelled by its gas unit. In no case would the steam unit fuel costs exceed the costs of the gas unit that is fuelling it.

Between December 9, 2009 and January 31, 2010, there were 21 instances where the steam unit of a combined cycle plant had an offer price that was higher than the offer price of the associated gas unit. The inappropriate CMSC payments totalled \$142,000. In the month of February 2010, the results dropped to 12 instances resulting in inappropriate CMSC of about \$5100. Based on materiality, the IESO did not pursue further data collection. While not material at this time, the opportunity to earn inappropriate CMSC payments still exists.

**PART 4 – PROPOSAL (BY SUBMITTER)**

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

Amend section 3.5 of Chapter 9 of the market rules to authorize the IESO to recover or withhold CMSC under the scenarios described above.

**PART 5 – FOR IESO USE ONLY**

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

MR Number: MR-00252

Date Submitted to *Technical Panel*: Originally submitted December 12, 2008; revised draft submitted on June 30, 2010

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

General       Urgent       Minor

Date:

December 16, 2008

Criteria for Acceptance: It identifies means to better enable the market to satisfy the market design principle of efficiency.

Priority: Medium

**PART 5 – FOR IESO USE ONLY**

Criteria for Assigning Priority: A medium priority is appropriate recognizing that the IESO has the ability to seek an urgent amendment at any time if market participants seek to exploit this flaw in the market rules.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

Technical Panel Minutes Reference: IESOTP 221-1 and IESOTP 239-1

Technical Panel Comments: There was general agreement that the amendment submission needed to be re-drafted prior to publication, to address the concerns of the generation community and eliminate references to ‘gaming’. The Panel also requested that IESO staff work with the generator representative to re-draft the submission.

**IESO staff note:** *In response to the TP comments, the IESO established stakeholder consultation forum SE-84 ([http://www.ieso.ca/imoweb/consult/consult\\_se84.asp](http://www.ieso.ca/imoweb/consult/consult_se84.asp)). Through that forum, the IESO has had three meetings with the generator community with the most recent meeting being held on June 23, 2010. Although the IESO recognizes generators have outstanding concerns that need to be addressed concurrently with Technical Panel review of the amendment proposal, the amendment submission is in a form that addresses the Technical Panel’s request, i.e. the submission clearly articulates the background, concerns and issues around this rule amendment.*