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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00370		
Subject:	Congestion Management Settlement Credits (CMSC)		
Title:	Limiting CMSC Payments for Exporters and Dispatchable Loads		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapter:	9	Appendix:	
Sections:	3.5.2, 3.5.6A(new)		
Sub-sections proposed for amending:			

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel Review	June 4, 2010
2.0	Draft for Technical Panel Review	June 30, 2010
3.0	Publish for Stakeholder Review and Comment	July 8, 2010
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

### 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

It is proposed that when an exporter or dispatchable load is eligible for a CMSC payment and has a bid that is less than -\$50, and the bid is less than the applicable energy market clearing price, the price(s) used for the CMSC payment calculation would be the lesser of -\$50 or the market clearing price.

#### Background

In its January 2010 Monitoring Report<sup>1</sup>, the Market Surveillance Panel (MSP) identified an opportunity for market participants to obtain excessive CMSC payments from the marketplace through strategic bidding practices. Specifically, the MSP noted a significant increase in constrained on payments to exporters who submit negative bids, especially in the Northwest. Excess generation, transmission limitations, limited import/export capability at the Minnesota and Manitoba interties, and a significant drop in demand in the Northwest (22% decline in 2009 compared to 2008) frequently results in low or negative shadow prices in that zone<sup>2</sup>. Negative shadow prices provide the opportunity for exporters/dispatchable loads to bid strategically to earn significant constrained on payments, resulting in higher uplift costs for Ontario consumers.

To address this particular concern, the MSP recommended that for the purposes of calculating constrained on CMSC for all export and dispatchable load transactions, the IESO should use a replacement bid (such as \$0/MWh). The MSP also noted that using a \$0/MW replacement bid price for constrained on CMSC payments to exporters/dispatchable loads would create consistency with the treatment of generators and importers that receive constrained off CMSC payments (July 2003 urgent rule amendment [MR-00239](#)).

Stakeholders expressed concern that using a replacement bid of \$0 would be a deterrent to future export transactions. For example, if the price at which the export is settled in the neighbouring market is negative, an export from Ontario would have to pay to import into the neighbouring market. A replacement bid of \$0 could result in the exporter suffering a loss in this case and the exporter is not likely

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<sup>1</sup> Market Surveillance Panel Monitoring Report on the IESO-Administered Electricity Markets for the period from May 2009 to Oct 2009 (refer to section 3.1).

<sup>2</sup> The Pine Portage shadow price (representative of the Northwest) was negative 47% of the time in 2009 compared to 20% of the time in 2008.

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

to trade. In light of these concerns, the IESO reviewed the 2009 MISO intertie prices used for export transactions to Minnesota (ONTW) and Manitoba (ONT). The following table provides summary statistics on those intertie prices.

<b>ONTW prices for exports from Ontario to Minnesota</b>	<b>All hours in 2009</b>		
	<b>Average MCP (\$)</b>	<b>Std Dev (\$)</b>	<b>Average minus 2 std deviations (\$)</b>
	26.60	21.75	-16.90

<b>ONT prices for exports from Ontario to Manitoba</b>	<b>All hours in 2009</b>		
	<b>Average MCP (\$)</b>	<b>Std Dev (\$)</b>	<b>Average minus 2 std deviations (\$)</b>
	31.95	32.05	-32.15

The IESO was also asked to consider the transactional costs that exports incur. Based on a review of export transaction costs in Ontario (including relevant hourly and monthly uplifts and export tariff fee) and transactional costs in MISO (including the Revenue Sufficiency Guarantee), the average total transaction costs for a 1MW export from Ontario to MISO is \$7.44.

<b>Transactions costs for exports from Ontario to MISO</b>	<b>All hours in 2009</b>		
	<b>Average Costs (\$)</b>	<b>Std Dev (\$)</b>	<b>Average plus 2 std deviations (\$)</b>
	7.44	4.44	16.32

Considering that 95% of all prices fall within two standard deviations from the average price and considering transactional costs, the IESO is proposing to use a replacement bid of -\$50 when an exporter or dispatchable load is eligible for CMSC and has a bid that is less than -\$50, and that bid is less than the applicable energy market clearing price. The price(s) used for the CMSC payment calculation would be the lesser of -\$50 or the market clearing price. Any export or dispatchable load with a bid of -\$50 or greater would continue to receive the CMSC associated with that bid.

**Potential Impact on Efficient Exports**

An efficient export occurs when power flows from the low cost area to higher cost external markets (e.g. Northwest zone to MISO). During surplus conditions with negative prices, negative bids may still be efficient. In order to estimate the degree to which the amendment proposal could limit efficient exports,

## PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

the IESO compared Pine Portage nodal prices to the Minnesota hub prices. The opportunity for efficient exports was deemed to exist whenever the Pine Portage nodal price was more negative than the Minnesota hub price. Pine Portage is a reasonable proxy for the value of energy at the Northwest region of Ontario.

Using Pine Portage prices, in 2009, there were 187 hours (i.e. 2.1% of a total 8,760 hours in a year) where these conditions existed. In those 187 hours, 119 transactions (just under 5,000MWs) were constrained on with negative bids. For those transactions, approximately \$114K of CMSC was paid. Had the constrained on CMSC payments been based on a replacement bid of -\$50 (or MCP where MCP was less than -\$50) there would have been no change in the amount of CMSC that would have been paid. Therefore, for all of the efficient export transactions, the offer prices associated with those transactions were never less than -\$50. The analysis suggests that the proposal would have a little to no impact on efficient exports.

### Discussion

Amend the market rules in Chapter 9, section 3.5 to specify that for the purposes of calculating CMSC, the IESO shall adjust any bid price associated with an exporter or dispatchable load facility under the following conditions:

1. The bid price is less than -\$50; and
2. The bid price is less than the applicable energy market price (i.e. the market clearing price).

When these two conditions are met, the IESO shall adjust the negative bid price to the lesser of -\$50/MWh or the applicable market clearing price.

The second condition (i.e. where the bid price is less than the applicable energy market price) will result in a replacement bid to limit constrained on, positive CMSC (as recommended by the MSP), as well as constrained off, negative CMSC. Limiting constrained off, negative CMSC will add a degree of symmetry and fairness to the proposal.

The qualification on the adjustment (i.e. using the lesser of -\$50 or the market clearing price) is necessary to avoid charging the market participant an inappropriate negative CMSC payment.

## PART 4 – PROPOSED AMENDMENT

### Chapter 9

#### 3.5 Hourly Settlement Amounts for Congestion Management

- | 3.5.2 Subject to sections 3.5.6, [3.5.6A](#), 3.5.7 and 3.5.9 and subject to Appendix 7.6 of Chapter 7, the hourly congestion *management settlement credit* for market

participant ‘k’ for settlement hour ‘h’ (“CMSC<sub>k,h</sub>”) shall be determined by the following equation:

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3.5.6 The IESO shall adjust, in the matrices specified in section 3.5.2 and for the purposes of determining the applicable congestion management settlement credit payments, any offer price that:

3.5.6.1 is associated with a generation facility or is associated with an injecting boundary entity; and

3.5.6.2 is less than a specified lower limit where such limit is the lesser of 0.00 \$/MWh and the energy market price for the applicable dispatch interval;

to that lower limit.

3.5.6A The IESO shall adjust, in the matrices specified in section 3.5.2 and for the purposes of determining the applicable congestion management settlement credit payments, any bid price that:

3.5.6A.1 is associated with a dispatchable load facility or is associated with a withdrawing boundary entity;

3.5.6A.2 is less than minus \$50/MWh; and

3.5.6A.3 is less than the applicable energy market price for the applicable dispatch interval;

to the lesser of minus \$50/MWh and the applicable energy market price.

**PART 5 – IESO BOARD DECISION RATIONALE**

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