

Alternative Proposals: Constrained Off CMSC Payments for Imports and Exports

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- **Issue: Actual game and potential for more**
 - Bidding in “sweet spot” leading to selection in market schedule but not constrained schedule
 - Apparent purpose of getting CMSC payments rather than flowing import or export
- **Stakeholder meeting November 16, 2005**
 - Identified problem, initial proposal, some alternatives
- **Technical Panel initiated MR-00306 (Nov 29)**
 - 5 alternatives identified (Dec 13)
 - Suggested taking 2 proposals to stakeholders

1. Eliminate Constrained off CMSC Payments for Imports and Exports
2. Modified Local Market Power Review
 - Use procedures of Appendix 7.6 without needing to establish local market power
3. Hybrid Proposal
 - Two-part proposal that differentiates between intertie transactions originating from, or destined to, an intertie zone with a competitive energy market vs. no market. Redefines CMSC where there is a market; otherwise Option 2.
4. Mitigate in Highly Congested Areas
 - Mitigation of constrained off CMSC payments for imports and exports would only apply in intertie zones in highly congested areas
5. Mitigate Based on Market Participant Activity
 - Mitigation of constrained off CMSC payments for imports and exports would only apply where a market participant's import/export transactions are frequently constrained off above some threshold(s)

Doing nothing is not a viable alternative.

Assessing the Proposals - General Considerations

- While the desired approach would be to adjust constrained off CMSC payments only when a market participant is “gaming” the CMSC regime, it would be difficult if not impossible to prove participant intent.
- Only way to completely eliminate the identified behaviour is to eliminate constrained-off payments (Option 1).
- Other proposals (Options 2-5) will only mitigate the payment associated with the identified behaviour.
 - All essentially represent variations of the Appendix 7.6 review for some group of imports / exports,
 - suspending requirement to establish local market power
 - And reviewing cases to one degree or another
- Recently amended Appendix 7.6 market rules (MR-00295) clarified that
 - Participant intent did not need to be proved under local market power mitigation rules
 - Costs and lost opportunities are the basis for limiting payments

Option 1: Eliminate Constrained Off CMSC Payments for Imports and Exports

- Creates additional risk for trade with Ontario
- Discriminates relative to generation and dispatchable loads

Option 3: Hybrid Proposal

- Where there is a market, the automated adjustment may not adequately capture appropriate costs

Option 5: Mitigate Based on Market Participant Activity

- Can create wrong incentives & odd behaviour
 - As thresholds approached at end of month
e.g. temporarily withdraw from market

Option 2: Modified Local Market Power Review

- Preferred relative to Option 3 Hybrid
 - both deal with all import & export CMSC
 - Option 2 is able to establish costs etc. more accurately.

Option 4: Mitigate in Highly Congested Areas

- Preferred relative to Option 5 based on Market Participant Activity
 - both identify a subset of CMSC and constrained off conditions
 - Selection under Option 5 can be manipulated by participants, but not under Option 4.

Modified Local Market Power Review

- For all constrained off imports and exports
 - Apply procedures in Appendix 7.6 without needing to establish local market power
 - Suspend the 3 local market power screens:
 - Reference price, transmission, sufficient competition
- Review all constrained off events
 - Compare offer/bid prices to known or estimated benchmarks/costs
 - Relying on external prices, other information known to IESO
 - May open an investigation using criteria in section 1.4A of Appendix 7.6, based on “cost consistency”
 - Subject to some thresholds for materiality

- Adjustment based on information that may be provided by participant
 - Or IESO's best information if not provided by participant
- Maintain procedures which
 - require notifying participants
 - allow participant to provide additional information
 - including proposing a price or basis for revising CMSC
 - allow recourse to an inquiry

Modified Local Market Power Review:

- Reduces incentive to play the identified CMSC game
 - But does not eliminate behaviour
- Participant is kept whole since payment based on
 - Participant's actual costs or lost revenues
- Drawn-out process with uncertain outcome
 - Process begins after final settlement for trade day
 - IESO may not initiate investigation and adjustment
 - Materiality thresholds / effort are “self-regulating”
 - but participant has input to the process and result and can request an inquiry
- Affects all transactions even when likelihood of “gaming” is minimal - all participants in all intertie zones
- Potentially significant additional effort – IESO (& participants)

Mitigate in Highly Congested Zones

- Define standards for designating zones as “highly congested”
 - E.g. X% or more of the transactions in the previous quarter
 - Congestion based on observed import [export] transactions
 - constrained off at the intertie
 - Or Y% of time where there is potential for being constrained off,
 - based on nodal price relative to MCP
 - In area of Ontario just inside the intertie zone
 - Can apply separately to congestion faced by imports, or exports
- No change in constrained off CMSC payments for import and export transactions in other zones
 - and no change to those for local market power mitigation Appendix 7.6
- When imports/exports in these zones are constrained off, the IESO would:
 - Apply modified local market power review [as in Option 2]

Alternative processes for determining CMSC / adjustment had been considered, but are not proposed:

1. An after-the-fact adjustment, based on IESO's best estimate of the relevant cost / lost opportunity
 - Which may be an external market price, based on history, IESO's knowledge of hydroelectric conditions etc.
 - Market participant could submit a notice of disagreement
2. Hybrid approach as in Option 3:
 - Automated adjustment where there is a market;
 - Or modified local market power review, where no market [Option 2]

Highly Congested Zones:

- Reduces incentive to play the identified CMSC game
 - But does not eliminate behaviour
- Applies only in areas / situations where CMSC gaming opportunities are most likely
 - May not capture all opportunities, but Appendix 7.6 still applies for these
 - Applies in subsequent quarter when conditions may have changed
 - Most accurate when congestion persists Gives IESO flexibility to identify more appropriate external price, recent offer prices or other
- Participant is kept whole since payment based on participant's actual costs or lost revenues [as in Option 2]
- Drawn-out process with uncertain outcome [as in Option 2]
- May still require significant effort if “busy” zones designated, depending on definitions, thresholds & bidding

- Criteria for ranking the proposals include, extent to which the solution:
 - targets the identified behaviour
 - controls the identified behaviour
 - induces acceptable other behaviours
 - is fair to importers & exporters, and others
 - is transparent and predictable
 - in terms of initiation of review and result of adjustment
 - enhances trade
 - is efficient and quick
 - is cost-effective (manual effort & re-tooling costs)
 - other?

Scale: e.g. -2 to 2	Option 2: Modified Local Market Power	Option 4: Congested Zones
Targets Behaviour		
Controls Behaviour		
Induces other behaviours		
Fair		
Transparent / Predictable		
Enhances Trade		
Efficient & Quick		
Cost-Effective		
Totals		

- Discuss options
- Identify preferred option
- Report discussion to Technical Panel