



Urgent Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.: MR-00238-R00
Subject: Administrative Pricing
Title: Correcting Inappropriate Charges and Payments that may Occur Under Administrative Pricing
Nature of proposal (please indicate with X): <u> </u> Alteration <u> </u> Deletion <u> X </u> Addition
Chapter: 7 Appendix:
Sections: 8.4
Sub-sections proposed for amending: 8.4.5G, 8.4.5H, 8.4.5J, 8.4.5K (all new)

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Submitted for Technical Panel review and IMO Board Consideration	30 May 03
2.0	Revised based on Technical Panel feedback and submitted for IMO Board Consideration	3 Jun 03
3.0	Approved by IMO Board	5 Jun 03

Approved Amendment *Publication* Date: 6 Jun 2003

Approved Amendment *Effective* Date: 30 Jun 2003

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IMO-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 *IMO-administered markets*.

It is proposed to amend the administrative pricing market rules, on an urgent basis, to allow for market participants to claim for and receive settlement corrections for inappropriate charges or payments that could occur under specific circumstances within the first 24 dispatch intervals of an administrative pricing event. These rule amendments arose as a result of an administered pricing event in December 2002 and a resulting amendment submission from a market participant.

When the market rule provisions regarding administered pricing were developed, it was recognized that there could be some inequities in market payments or charges to market participants as a result of the application of administrative pricing. It was judged that the provision for Congestion Management Settlement Credit (CMSC) payments would, in large part, keep market participants financially whole during the first 24 dispatch intervals of an administrative pricing event. However market experience to date has demonstrated that specific circumstances can occur, although infrequently, where market participants with dispatchable facilities can either be assessed significant and inappropriate negative CMSC payments or, be underpaid or overcharged significant dollar amounts for energy produced or withdrawn. The intent of these rule amendments is to address these specific circumstances.

The proposed means to address these situations is to:

- (a) Define the circumstances under which a correction is warranted;
- (b) Allow an affected market participant to provide the IMO with evidence of those circumstances; and
- (c) If the evidence demonstrates that the circumstances existed and caused the inappropriate market charge or payment, obligate the IMO to adjust the market participant's settlement amounts accordingly.

Based on market experience to date, the circumstances where the inappropriate charges or payments may occur are where:

- (i) The administrative pricing event extends from one dispatch hour to a subsequent hour(s), with the consequential carry-over of the administered price and the market schedule from the first hour to the subsequent hours(s); and
- (ii) The offer or bid prices and/or quantities for the dispatchable facility are different in the subsequent hour(s) compared to the hour in which both the administered price and market schedule were established.

Depending on the relationship between the carried over market schedule and administered price, and the changed offer or bid price, inappropriate charges or payments can result. Refer to illustrative example attached.

The proposed amendments place the responsibility on the affected market participant to provide the IMO with evidence that the defined circumstances occurred. With the volume of market settlement

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

transactions, it is not possible for the IMO to do this assessment without some significant market system changes that would delay implementation and continue to expose market participants to these inappropriate charges and payments in the interim.

The proposed amendments specify that market participants would use the existing settlement “notice of disagreement” provisions of the market rules to provide the evidence of the circumstances to the IMO and for the IMO to make any subsequent settlement adjustments. Using the existing notice of disagreement process is proposed as it is an existing process that can be implemented very quickly without changes to market facing settlement processes and with limited changes to internal IMO processes. The notice of disagreement provisions require that the market participant submit the notice of disagreement within 4 business days of receipt of the preliminary settlement statement. The IMO believes that this time period is adequate given that preliminary settlement statements are issued 10 business days after a trading day, and that market participants are made aware of an administrative pricing event for that trading day no later than 2 business days after the trading day. This means that market participants become aware of the administrative pricing event and the potential for inappropriate charges or payments at least 8 business days before they receive the preliminary settlement statement. Once aware, a market participant could then be in the position to undertake a review of whether or not any inappropriate charges or payments occurred as soon as they receive the preliminary settlement statement.

It should be noted that any disputes arising from the determination of any settlement corrections would, by default, be subject to the market rules dispute resolution provisions of Chapter 3.

It should also be noted that criteria for determining compliance with dispatch instructions for the purposes of determining eligibility for a settlement correction (refer to proposed sections 8.4.5G.4 and 8.4.5J.5) would not be any different than the criteria already established for determining compliance with dispatch instructions for any other purposes. These criteria are documented in the applicable market manual and market rule interpretation bulletin.

The proposed amendments have a narrower scope than originally requested by the amendment submitter. The originating amendment submission suggested allowing market participants to make a claim for additional compensation on a cost recovery basis similar to that currently allowed for administered pricing that goes beyond 24 dispatch intervals. The IMO believes that it is prudent to restrict the application of additional compensation to those circumstances that market experience has demonstrated have occurred. Allowing broader and less defined application, on an urgent basis, could result in unforeseen adverse impacts for the market.

PART 4 – PROPOSED AMENDMENT

8.4 Administrative Prices and Corresponding Schedules

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- 8.4.5G Where the *IMO* has established an *administrative price* pursuant to section 8.4.5A.1, a *market participant* may be eligible for an adjustment to its *settlement amounts* if:
- 8.4.5G.1 that *market participant* has been assessed a negative hourly congestion management *settlement credit* for the *dispatch intervals* that are the subject matter of the *administrative price* event pursuant to section 3.5 of Chapter 9;
 - 8.4.5G.2 the *market schedule* determined pursuant to section 8.4.4.1 or 8.4.4.1A for the applicable *administrative pricing* event is carried forward to a subsequent *dispatch hour* that is the *dispatch hour* to which the negative congestion management *settlement credit* referred to in section 8.4.5G.1 applies;
 - 8.4.5G.3 the price and/or quantity values in the *market participant's* submitted *dispatch data* are different in the *dispatch hour* from which the *market schedule* referred to in section 8.4.5G.2 was established compared to the *market participant's* submitted *dispatch data* for the *dispatch hour* to which the negative congestion management *settlement credit* referred to in section 8.4.5G.1 applies;
 - 8.4.5G.4 the *market participant* complied with the *IMO's dispatch instruction* for the period of *administrative pricing* in question;
 - 8.4.5G.5 the negative hourly congestion management *settlement credit* referred to in section 8.4.5G.1 arose strictly due to the circumstances outlined in section 8.4.5G.2 through 8.4.5G.4; and
 - 8.4.5G.6 the *market participant*, by issuing to the *IMO* a *notice of disagreement* pursuant to section 6.6 of Chapter 9, provides evidence that the circumstances outlined in section 8.4.5G.1 through 8.4.5G.5 have occurred.
- 8.4.5H If the *market participant*, pursuant to section 8.4.5G, has demonstrated to the satisfaction of the *IMO* that circumstances outlined in section 8.4.5G.1 through 8.4.5G.5 have occurred, the *IMO* shall, in accordance with section 6.6 of Chapter 9, adjust the *market participant's settlement amounts* by an amount to offset the negative hourly congestion management *settlement credit* referred to in section 8.4.5G.1.

- 8.4.5J Where the *IMO* has established an *administrative price* pursuant to section 8.4.5A.1, a *market participant* may be eligible for additional compensation if:
- 8.4.5J.1 the *market participant* has been assessed an hourly net *energy market settlement credit* for a *dispatchable facility* or *boundary entity* that represents either an underpayment or overcharge, as the case may be, when comparing the *administrative price* used for determining the hourly net *energy market settlement credit* to the market participant's applicable *offer* or *bid price*;
 - 8.4.5J.2 no hourly congestion management *settlement credit* that would offset that overcharge or underpayment has been assessed for that *market participant* pursuant to section 3.5 of chapter 9;
 - 8.4.5J.3 the *market schedule* determined pursuant to section 8.4.4.1 or 8.4.4.1A for the applicable *administrative pricing* event is carried forward to a subsequent *dispatch hour* that is the *dispatch hour* to which the hourly net *energy market settlement credit* referred to in section 8.4.5J.1 applies;
 - 8.4.5J.4 the price and/or quantity values in the *market participant's* submitted *dispatch data* are different in the *dispatch hour* from which the *market schedule* referred to in section 8.4.5J.3 was established compared to the *market participant's* submitted *dispatch data* for the *dispatch hour* to which the above hourly net *energy market settlement credit* applies referred to in section 8.4.5J.1;
 - 8.4.5J.5 the *market participant* complied with the *IMO's dispatch instruction* for the period of *administrative pricing* in question;
 - 8.4.5J.6 the hourly net *energy market settlement credit* referred to in section 8.4.5J.1 and the resulting overcharge or underpayment arose strictly due to the circumstances outlined in section 8.4.5J.3 through 8.4.5J.5; and
 - 8.4.5J.7 the *market participant*, by issuing to the *IMO* a *notice of disagreement* pursuant to section 6.6 of Chapter 9, provides evidence that the circumstances outlined in section 8.4.5J.1 through 8.4.5J.6 have occurred.
- 8.4.5K If the *market participant*, pursuant to section 8.4.5J has demonstrated to the satisfaction of the *IMO* that circumstances outlined in section 8.4.5J.1 through 8.4.5J.6 have occurred, the *IMO* shall, in accordance with section 6.6 of Chapter 9, adjust the *market participant's settlement amounts* by an amount to offset the overcharge or underpayment, referred to in section 8.4.5J.1, as the case may be.

PART 5 – IMO BOARD COMMENTS

Illustrative Example of Inappropriate Charges Under Administrative Pricing

	Hour 1	Hour 2
	Source of last good interval	Administrative pricing applied
Generator Offer	Low – “in the money”	High – “out of the money”
Market Clearing Price	Medium – higher than generator offer	Carry over Medium MCP
Market Schedule for Generator	Full MW scheduled	Carry over full MW
Market Schedule Operating profit	Full MW x (MCP-low offer) [<i>a positive quantity</i>]	Full MW x (MCP-high offer) [<i>a negative quantity, i.e. a loss</i>]
Actual Dispatch	Full MW scheduled	0 MW scheduled (based on comparing offer price to MCP)
Actual Dispatch Operating Profit	Full MW x (MCP-low offer)	0 MW x (MCP-high offer) = \$0
CMSC: adjustment to make (Actual Dispatch Operating Profit) equal (Market Schedule Operating Profit)	= 0 [<i>operating profit the same for both the market schedule and actual dispatch</i>]	= Full MW x (MCP-high offer) [<i>a negative quantity to make actual operating profit equal market schedule loss</i>]