Congestion Management Settlement Credits
Backgrounder

Key Facts

- Congestion Management Settlement Credits (CMSC) are needed to maintain the reliability of Ontario's electricity system
- They incent generators to follow Independent Electricity System Operator (IESO) instructions that would otherwise result in a financial loss
- Without CMSC, suppliers could refuse to follow dispatch instructions and impact reliability
- CMSC is needed to meet North American power system reliability standards
- These costs result from the natural physical limits of the power system, such as transmission line limits, which can prevent power from getting to where it needs to go
- These are costs, about $1.6 billion since 2002, that are inherent in any electricity system and cannot be eliminated without overbuilding Ontario's transmission system
- The IESO has made more than a dozen market rule changes since market opening in 2002 to make the CMSC payments more efficient and transparent
- The IESO is now making fundamental changes to Ontario's electricity market through the Market Renewal Program, changes that would eliminate CMSC

"Many of the most problematic issues associated with the CMSC regime have been brought to an end – in large measure as a result of the Panel having identified these situations, and the IESO having acted to eliminate them."

-- December 2016 Market Surveillance Panel Report

IESO has increased CMSC efficiency by taking actions to ensure:

- payments occur only in cases where offers of electricity to the market are reflective of actual operating costs
- payments are more closely aligned with the participant's abilities to actually deliver power
- accurate application of payments when generators have to deviate from IESO instructions for safety, environmental or legal reasons
- payments are reduced in situations where facilities do not come offline quickly

The Next Step: Eliminating CMSC

Ontario is in a robust supply situation as a result of investments made over the last decade, making now the right time to make more fundamental changes to the electricity market. These changes are being made through the IESO's Market Renewal Program, which will result in a more efficient, competitive, and transparent electricity market. The Ontario Energy Board's (OEB) Market Surveillance Panel (MSP) is supportive and is participating in this program.

The program will result in up to $5.2 billion in savings over a 10-year period, the majority of which will be realized by ratepayers. These benefits will come from better scheduling and dispatching of resources, and more efficient and competitive procurement of Ontario's electricity needs.

As part of these efforts, the IESO is changing the way it schedules resources so that costs associated with system constraints, such as transmission line limitations, are reflected in the market price, replacing the need for CMSC.

The IESO is currently working with a wide range of stakeholders on a high level design for Market Renewal initiatives and will begin the detailed design and implementation phase in 2019.

Background

The purchase and sale of electricity in Ontario is managed through the operation of a competitive wholesale market. Every hour, the IESO receives offers from a wide range of suppliers to provide electricity (as well as bids from large consumers to reduce electricity use on demand) and then schedules the lowest-cost offers needed to meet demand every five minutes.

However, price isn't the only factor when scheduling resources. The market must also respect physical limitations, such as transmission line limits. In this way, the IESO balances supply and demand to maintain the reliability of Ontario's electricity system.

Congestion Management Settlement Credits are paid when generators or consumers are instructed to consume or supply electricity when they would otherwise be doing so at an operating loss. This is an integral part of the current design of the market that incents market participants to follow the IESO's instructions and ensure reliability.