

MARCH 11, 2020

Information Session: Update on Market Surveillance Panel Recommendation on Transmission Rights Payout

Public Webinar

Meeting Participation

- Webcast participation (dial in required for audio):
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Meeting Participation (continued)

- There will be pauses throughout to ask questions; when asking a question, state your name and who you represent
- This webinar is conducted according to the [IESO Engagement Principles](#)

Agenda

- Transmission Rights (TR) Market background
- Market Surveillance Panel (MSP) Recommendation
- Solution to address MSP Recommendation
- Implementation Timelines
- Summary

Purpose

- To update TR participants on:
 - The steps that the IESO will undertake to address the MSP recommendation on TR payouts
 - How this change will impact TR participants

What is the Transmission Rights Market?

- The TR Market is a financial market where TRs are auctioned by the IESO to electricity importers and exporters
 - Due to limited transmission between Ontario and an external jurisdiction, the Ontario electricity price can differ from the price in any intertie zone of the Ontario electricity market (e.g. the New York zonal price)
 - Similar to an insurance policy, a TR protects its holders (“TR holders”) against unexpected “congestion” on an intertie that impacts the purchase or selling price

What is the Transmission Rights Market? (continued)

- The ability to hedge unexpected price changes reduces trading risk and thereby provides operational benefits and maximizes the value of trading, lowering costs to consumers
- TRs are offered on long-term (annual) and short-term (monthly) durations through auctions that take place on a quarterly and monthly basis, respectively
- For each intertie, TRs are sold in both the import and export directions and each direction is referred to as a separate “TR path”

Market Surveillance Panel Recommendation

- The Market Surveillance Panel (MSP) in its “Monitoring Report on the IESO-Administered Electricity Markets for the period from May 2017 – October 2017” highlighted the issue that TR payouts are being made to TR holders when the transmission transfer capability for a TR path was reduced to zero in one direction (due to an outage)

Market Surveillance Panel Recommendation (continued)

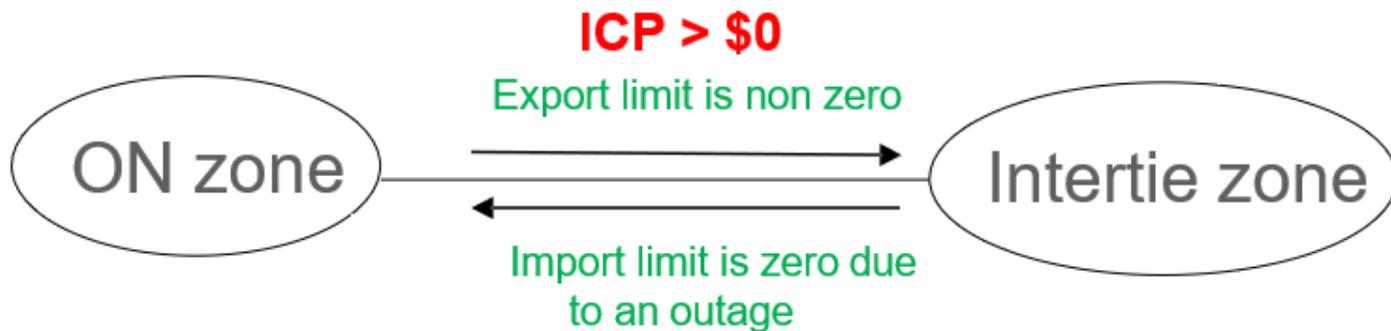
- The MSP recommended “the IESO should ensure its procedure for determining an outage when administering Transmission Rights aligns with the Market Rules”
- When the transmission transfer capability for a TR path is reduced to 0 MW, the intertie cannot facilitate any intertie transactions in that direction
- With no intertie transactions, there is no intertie congestion price risk to hedge against and therefore the TR holders of that TR path should not receive any TR payouts

Market Surveillance Panel Recommendation (continued)

- The issue that the MSP highlighted occurs when TR payouts are generated for the TR holders when the following conditions are met:
 - Intertie limit is reduced to 0 MW only in one direction, and market participants have placed bids or offers in that direction of the intertie for the hours when the intertie limit is zero

Market Surveillance Panel Recommendation (continued)

- Intertie Congestion Price (ICP) for the intertie is non-zero
- Intertie limit is non-zero in the other direction as the intertie is congested in that direction



Market Surveillance Panel Recommendation (continued)

- Market Rules (MR) Chapter 8, Section 4.4.2 requires the IESO to ensure no TR payouts are made when the intertie limit is reduced to zero in the following order (Appendix A):
 - For the hour in which the intertie limit is reduced to zero, TR payouts owing shall be calculated consistent with when intertie limit is non-zero (in accordance with section MR Chapter 8, section 4.4.1); and
 - For each subsequent hour during which the intertie limit is zero, including the hour in which the intertie limit returns to an amount greater than zero, the amount owing shall be zero.

Solution

- To address the issue raised by the MSP report the IESO will implement an enduring solution to ensure that no TR payouts are made on a TR path for which the transmission transfer capability has been reduced to zero
 - Expected to be implemented by Q3 2020

Solution (continued)

- The IESO will implement an interim solution effective from April 1, 2020
 - After-the-fact settlement charge will be added to the settlement statement to reverse any TR payment where the transmission transfer capability has been reduced to zero “Transmission Rights Settlement Credit Reversal” (Charge type 104) (see Appendix B)
- No changes are needed to the IESO invoice or applicable market manuals to implement the interim or enduring solutions

Historical Transmission Rights Payouts

- The IESO will assess the materiality of any TR payouts made prior to April 1, 2020 and may contact affected TR market participants individually to seek repayment for any TR payouts made prior to that date

Implementation Timelines

- Interim solution will take effect as of April 1, 2020
 - TR market participants will see the new charge for the first time in their preliminary settlement statements by mid-May
- Enduring solution is expected to be implemented by end of Q3 2020

Summary

- The MSP identified an issue where TR payouts were made to TR holders when the transmission transfer capability in one direction of the intertie was reduced to 0 MW
- TR holders should not receive TR payments when the transmission transfer capability is reduced to 0 MW
- The IESO is implementing solutions to address the MSP recommendation on TR payout, starting from April 1, 2020
- No market manual changes are required to implement these solutions

Appendix A: Market Rule, Chapter 8

4.4.2 Where the transmission transfer capability between a withdrawal TR zone and an injection TR zone has been reduced to zero by reason of the outage of the relevant interconnection, the amount owing by the IESO in respect of a transmission right associated with such TR zones that is valid for an hour during which such transmission transfer capability has been reduced to zero shall be calculated for each applicable TR holder as follows:

Appendix A: Market Rule, Chapter 8 (continued)

4.4.2.1 for the hour in which the reduction in transmission transfer capability first occurs, the amount owing shall be calculated in accordance with section 4.4.1; and

4.4.2.2 for each subsequent hour during which the reduction in transmission transfer capability subsists, including the hour in which the transmission transfer capability returns to an amount greater than zero, the amount owing shall be zero.

Appendix B: Settlement Statement Changes for Interim Solution

1. Screenshot of Settlement Statement*

- Before

```
DP|104|15-JAN-2020|18|0|31.16||P|4|7.79|||||||||||||||||||||ONZN|MNSI|0|0
```

- Before

```
DP|104|15-JAN-2020|18|0|31.16||P|4|7.79|||||||||||||||||||||ONZN|MNSI|0|0  
MP|104|31-JAN-2020|0|0|-31.16|ONZN|P||0|0|Transmission Rights Settlement Credit Clawback for TD=15-Jan-2020; HE=18
```

*As per the IESO's [Format Specifications for Settlement Statement Files and Data Files](#)

Appendix B: Settlement Statement Changes for Interim Solution (continued)

2. No change to invoice

Comments:
Charges for settlement statements issued: From 01-DEC-2019 To 31-DEC-2019

Charge Type	Description	Amount
104	TRANSMISSION RIGHTS SETTLEMENT CREDIT	(████████)
Invoice Total:		SCAD (████████)
		Do Not Send Payment

This invoice also constitutes a debit/credit note for GST/HST purposes