

Quick Takes: Settlement Changes to the Transmission Rights

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This issue of **Quick Takes** explains the change to how Transmission Rights are settled in the renewed market. It should be noted that for the purpose of this Quick Take, the term congestion, when referring to the current market, refers to the difference between the price in Ontario and the price in the intertie zone.

Overview

Transmission rights (TRs) are a risk management tool to enable traders to hedge against the financial risks associated with uncertain congestion at the interties. In the current market, TRs are settled based on real-time congestion prices, that is, the difference between the price in Ontario and the price in the intertie zone. In the renewed market, the IESO is introducing a financially binding Day-Ahead Market (DAM) where TRs will be settled based on DAM congestion prices instead of real-time congestion prices. For more information regarding the DAM, refer to [Market Rules Chapter 7](#) and [Market Manual 4.2](#).

Current Settlement and Renewed Market Settlement

Current Market (Before Market Renewal Go-Live)

In the current market, TRs are settled based on real-time congestion. The owner of a one megawatt TR is entitled to a payment equal to the difference between withdrawal zone and the injection zone every time there is congestion on the relevant intertie, in the relevant direction, and during the period of congestion as described in the equations below:

$$\text{Max } (0, P_w \text{ less } P_i) \times \text{QTR}$$

- P_w is the IESO-determined TR settlement price for the withdrawal zone.
- P_i is the IESO-determined TR settlement price for the injection zone.
- QTR is Quantity of Transmission Rights Owned.

In summary:

- When export congested, the TR Payment = $\text{MAX}(0, \text{Intertie Zone Price} - \text{Market Clearing Price}) \times \text{TR quantity owned}$
- When import congested, the TR Payment = $\text{MAX}(0, \text{Market Clearing Price} - \text{Intertie Zone Price}) \times \text{TR quantity owned}$

Renewed Market (After Market Renewal Go-Live)

In the renewed market, the change impacting the settlement of will be the calculation is now based on the DAM congestion price instead of the real-time congestion. As a result, the above equations are updated as shown below:

- When export congested, the TR Payment = $\text{MAX}(0, \text{DAM external congestion price at the injection zone} \times \text{TR quantity owned})$
- When import congested, the TR Payment = $\text{MAX}(0, -1 \times \text{DAM external congestion price at the withdrawal zone} \times \text{TR quantity owned})$

For more information regarding the TR auction, refer to [Market Rules Chapter 8 Section 3](#) and [Market Manual 4.4](#). For information regarding the settlement of TRs, refer to [Market Rules Chapter 9 Section 3.8](#) and [Market Manual 5.5](#).

Related Resources

Market Rules under the [MRP Webpage](#):

- Market Rules Chapter 7: System Operations and Physical Markets
- Market Rules Chapter 8: Physical Bilateral Contracts and Financial Markets
- Market Rules Chapter 9: Settlements and Billing

Market Manuals under the [MRP Webpage](#):

- Market Manual 4.2: Operation of the Day-Ahead Market
- Market Manual 4.4: Transmission Rights Auction
- Market Manual 5.5: IESO-Administered Markets Settlement Amounts