



## Market Rule Amendment Proposal

### PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00276-R00		
Subject:	Day-ahead market		
Title:	DAM Financial Transmission Rights		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	8	Appendix:	
Sections:	4.4, 4.12, 4.18, 4.19		
Sub-sections proposed for amending:	4.4.1A (new), 4.4.2A (new), 4.12.1.1A (new), 4.12.1.3A (new), 4.12.1.4A (new), 4.12.1.17 (new), 4.18.1.3, 4.19.1, 4.19.2, 4.19.3		

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Submitted for Technical Panel Review	September 30, 2004
2.0	Incorporated Technical Panel Comments and Posted for Review and Written Comments	October 7, 2004
3.0	Submitted for Technical Panel Review and Vote	November 09, 2004
4.0	Recommended by Technical Panel and Submitted for IMO Board Approval	November 16, 2004
Approved Amendment Publication Date:		
Approved Amendment Effective Date:		

### 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*.

#### Summary

The following proposed rule amendments are required to incorporate the operation of the Transmission Rights Market within the DAM.

The IMO Board has directed that the IMO proceed with the detailed design and development of market rule amendments for the day-ahead market, consistent with the high-level design strawman<sup>1</sup>. One area of market rule amendments needed is to incorporate the operation of the Transmission Rights (TR) Market within the day-ahead market (DAM). Contained within the DAM detailed design document for DAM and RTM Integration<sup>2</sup> there are additional details on the transmission rights process.

The market rules in Chapter 8 section 4 specify certain rights and obligations for both the IMO and TR participants with respect to the operation of the transmission rights (TR) market.

As result of the introduction of the DAM, the market rules in this section will need to be amended to settle TRs based on DAM prices, to establish the time at which the payments to TR holders will be calculated using DAM prices instead of real-time prices and to introduce additional pre-auction reporting requirements.

From a rules perspective, the introduction of the Day-ahead market does not require any changes to the obligations or authorities established for determining the number of transmission rights available for auction or the process in which participants can acquire the TRs.

Currently, TR payments are based on the intertie congestion in the real-time market. With the introduction of DAM, the real-time market effectively becomes a balancing market. The IMO expects that most of the transaction activity in the market shall be conducted day-ahead and that there will be a demand from market participants for TRs based on day-ahead prices. This change is also necessary to ensure that the TR clearing account is not negatively affected due to the potential of collecting insufficient congestion rents as a result of real-time market congestion.

In order that TR market participants be able to bid for TRs in knowledge of the basis for payment of those TRs, they will need to be notified well in advance when the payment provisions for any TRs will change from the RTM to the DAM. The transition from real-time TR to DAM TR will need to be carefully scheduled and coordinated due to the timing of long term auctions. Consequently, the IMO will be engaging market participants in general, and TR participants specifically, in discussions to determine how best to make this transition. A discussion paper regarding the transition mechanisms will be posted for comments on the pending changes section of the IMO website. In addition, the IMO

<sup>1</sup> The DAM high level design strawman is publicly available on the IMO website at the following location: [http://www.theimo.com/imoweb/pubs/consult/mep/DAM\\_WG\\_Strawman-4\\_0.pdf](http://www.theimo.com/imoweb/pubs/consult/mep/DAM_WG_Strawman-4_0.pdf)

<sup>2</sup>[http://www.theimo.com/imoweb/pubs/consult/mep/dam\\_wg\\_IMO\\_DES\\_0015\\_DAM\\_RTM\\_Integration.pdf](http://www.theimo.com/imoweb/pubs/consult/mep/dam_wg_IMO_DES_0015_DAM_RTM_Integration.pdf)

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**

shall be directly contacting TR participants via email alerting them to the discussion paper and also requesting comments. It is not expected that these deliberations will be fully completed until early 2005.

Therefore this amendment proposal is structured such that it allows for the necessary rules flexibility to accommodate the payment of congestion rents for existing TRs which are premised on real-time congestion prices up to a defined point in time and to then allow for the payment of TRs based on congestion prices in the DAM from that point of onward.

To accommodate this flexibility, a new section 4.4.1A is proposed to specify, that at a date to be determined by the IMO Board or its delegate, payments to TR holders shall be based on DAM intertie congestion prices. This new section would provide a cross reference to section 3.6A.1 of Chapter 9 (Settlements) rather than relying upon the existing defined term TR settlement price. This would eliminate the need for the Chapter 11 definition which is used only twice in Chapter 8 and which merely points the reader to section 3.1.3 of Chapter 9.

Similar to the provisions in the section 4.4.1, where no payments are made to TR holders under conditions where no congestion rents can be collected in the real-time market, a new section 4.4.2A is proposed to, subject to section 4.4.1A, specify that there will be no TR payments for complete outages to intertie in the DAM scheduling process and to further specify that upon the date identified in section 4.4.1A section 4.4.2 would cease to be in effect and would be left intentionally blank. With respect to Pre-Auction Publication in section 4.12 there will be a need to continue to publish all of the existing reports until such time as there are no more TRs held by market participants which are based on real-time congestion. Transitional rules to be developed at a later date will also facilitate the elimination of specific pre-auction reports requirements which are no longer relevant to TR participants. The timing of the elimination of these pre-auction reporting requirements will be concurrent with the cutover to all TR auctions being based on DAM prices.

There will need to be, however, at DAM commencement, the publishing of a number of pre-auction reports to reflect the introduction of new and/or modified data resulting from the operation of the DAM market. Pre-auction reports are published in advance of any TR auction and this information provides TR participants with the data to assist them in valuing the TRs they may be bidding on. Regardless of when precisely TRs are settled on DAM prices this information is necessary to allow TR participants to understand the potential value of these TRs. Hence it is proposed to insert three new IMO publishing obligations, subject to DAM commencement, subsections 4.12.1.1a (DAM hourly prices), 4.12.1.3a (DAM hourly flows) and 4.12.1.4a (DAM hourly transmission transfer capability). In addition, certain pre-auction reports will no longer be necessary once payments to TR holders are based on DAM intertie congestion prices hence a new a sub-section 4.12.1.7 is proposed to remove those IMO publishing obligations at that time

Finally, with the addition of proposed subsection 4.4.1A, consequential amendments are required in sections 4.18.1.3, 4.91.1, 4.19.2, and 4.19.3. This aligns the offering of TRs based on DAM prices with the appropriate TR Clearing Account and Settlement market rules in Chapter 8.

## PART 4 – PROPOSED AMENDMENT

**4.4 Payments to TR Holders Under Transmission Rights**

4.4.1 Subject to section 4.4.2, the amount owing by the *IMO* in respect of a *transmission right* that is valid for a given hour shall be calculated for each applicable *TR holder* by multiplying the amount referred to in section 4.4.1.1 with the amount referred to in section 4.4.1.2:

4.4.1.1 the greater of (i) zero and (ii) the *TR settlement price* at the withdrawal *TR zone* minus the *TR settlement price* at the injection *TR zone*; and

4.4.1.2 the number of *transmission rights* associated with such *TR zones* that are held by that *TR holder*.

4.4.1A From a date to be determined by the *IMO Board* or its delegate, section 4.4.1 shall cease to have effect and shall be shown as “[Intentionally Left Blank – Section Deleted]” and, subject to section 4.4.2A, settlement of transmission rights shall be in accordance with Chapter 9 section 3.6A.1.

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 *IMO* 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:

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.

4.4.2A From the date determined in accordance with section 4.4.1A, section 4.4.2 shall cease to have effect and shall be shown as “[Intentionally Left Blank – Section Deleted]” and there shall be no payments made to *TR holders* for any hour in which the *transmission transfer capability* between a withdrawal *TR zone* in the *day-ahead market* and an injection *TR zone* in the *day-ahead market* has been reduced to zero by reason of the *outage* of the relevant *interconnection*.

4.4.3 [Intentionally left blank]

## 4.12 Pre-auction Publication

4.12.1 The *IMO* shall *publish*, at least thirty days prior to each *TR auction*:

4.12.1.1 hourly prices determined on the basis of the last projected *market price* for *energy published* for that hour pursuant to section 5.5.1 of Chapter 7 for each *TR zone* during the preceding twelve months ~~or, in the case of a *TR auction* conducted less than twelve months following the *market commencement date*, since the *market commencement date*;~~

4.12.1.1A at the *DAM commencement date*, hourly energy prices determined by pass 5 of the *day-ahead market calculation engine* of each *TR zone* during the preceding twelve months or, in the case of a *TR auction* conducted less than twelve months following the *DAM commencement date*, since the *DAM commencement date*;

4.12.1.2 the *TR market clearing price* for each *transmission right* sold during any *TR auctions* conducted in the preceding eighteen months; ~~or, in the case of a *TR auction* conducted less than eighteen months following the *market commencement date*, since the *market commencement date*;~~

4.12.1.3 actual and scheduled hourly flows over each *interconnection* during the preceding twelve months or, in the case of a *TR auction* conducted less than twelve months following the *market commencement date*, since the *market commencement date*;

4.12.1.3A at the *DAM commencement date*, scheduled energy and operating reserve in the *day-ahead market* over each *interconnection* in the constrained and unconstrained schedules during the preceding twelve months or, in the case of a *TR auction* conducted less than twelve months following the *DAM commencement date*, since the *DAM commencement date*;

4.12.1.4 the hourly *transmission transfer capability* of each *interconnection* during the preceding twelve months or, in the case of a *TR auction* conducted less than twelve months following the *market commencement date*, since the *market commencement date* or from such earlier period as such information may be available provided that such information need not cover a period in excess of twelve months; ~~and~~

4.12.1.4A at the *DAM commencement date*, the hourly *transmission transfer capability* in the *day-ahead market* of each *interconnection* during the preceding twelve months or, in the case of a *TR auction* conducted less than twelve months following *DAM commencement date*, since the *DAM commencement date*; and

4.12.1.5 identification of any *transmission transfer capability* limits, parallel flow assumptions and other applicable constraints that may limit the number of *transmission rights* that can be awarded in the *TR auction*, and the operating assumptions established in respect of the *TR auction* pursuant to section 4.7.2.

4.12.1.6 [Intentionally left blank]

4.12.1.7 From and after the date specified by the *IMO Board* or its delegate in accordance with section 4.4.1A, the obligations of the *IMO* under sections 4.12.1.1, 4.12.1.3, and 4.12.1.4 shall cease.

## 4.18 TR Clearing Account

4.18.1 The *IMO* shall establish and maintain a *TR clearing account* and shall:

4.18.1.1 credit to the *TR clearing account*, in respect of each *settlement hour*, the net congestion rents calculated in accordance with section 3.6.2 of Chapter 9;

4.18.1.1A credit to the *TR clearing account* the amounts referred to in sections 4.20.1A and 4.20.1B;

4.18.1.2 subject to section 4.19.7, credit to the *TR clearing account* the net revenues received from the sale of *transmission rights* in a *TR auction* in accordance with section 4.19.4;

4.18.1.3 debit from the *TR clearing account* any amounts required to be paid to *TR holders* pursuant to section 4.4.1 or Chapter 9, section 3.6A.1;

4.18.1.4 debit from the *TR clearing account* any amounts required to be paid to successful *TR offerors* pursuant to section 4.19.6; and

4.18.1.5 debit from the *TR clearing account* any amounts authorized to be debited and used to offset *transmission services charges* in accordance with section 4.18.2.

4.18.2 Subject to section 4.18.3, the *IMO Board* may, at such times as it determines appropriate, authorize the debit of funds from the *TR clearing account* for the purpose of using those funds to offset the *transmission services charges* referred to in section 3.6.3 of Chapter 9.

4.18.3 The *IMO Board* shall establish a reserve threshold for the *TR clearing account*.

## 4.19 Settlement

- 4.19.1 All amounts payable to *TR holders* under *transmission rights* in accordance with section 4.4.1 [or Chapter 9, section 3.6A.1](#) shall be *settled* by the *IMO* in accordance with section 6 of Chapter 9.
- 4.19.2 Payments required to be made by the *IMO* to *TR holders* in accordance with section 4.4.1 [or Chapter 9, section 3.6A.1](#) shall be funded by means of debits from the *TR clearing account*. Where the aggregate amount payable to *TR holders* in a given *billing period* under section 4.4.1 [or Chapter 9, section 3.6A.1](#) exceeds all funds available in the *TR clearing account*, the shortfall shall be funded by the borrowing of short-term funds in accordance with section 6.14.4 of Chapter 9.
- 4.19.3 Where the aggregate amount payable to *TR holders* in a given *billing period* under section 4.4.1 [or Chapter 9, section 3.6A.1](#) is less than the congestion rents collected during that *billing period* as described in section 4.18.1.1, the excess shall be used first, to repay any short-term funds borrowed by the *IMO* on account of a shortfall referred to in sections 4.19.2 and 4.19.6, second, subject to section 4.19.5A, to reimburse *market participants* for funds recovered by the *IMO* under Chapter 9, section 6.14.5.2, on a prorated basis according to, and in an amount that does not exceed, the amount so recovered, third, to replenish the reserve threshold specified in section 4.18.3, and the balance shall remain in the *TR clearing account*.
- 4.19.4 All amounts payable to or by the *IMO* on account of the purchase or sale of *transmission rights* in accordance with sections 4.17.1 and 4.17.2 in respect of all rounds of a given *TR auction* shall be settled by the *IMO* in accordance with section 6 of Chapter 9.
- 4.19.5 Where, in respect of a given *TR auction*, the aggregate amount received by the *IMO* in respect of the purchase of *transmission rights* exceeds the aggregate amount payable by the *IMO* in respect of the sale of *transmission rights* in that *TR auction*, the excess shall be used first to repay any short-term funds borrowed by the *IMO* on account of a shortfall referred to in sections 4.19.2 and 4.19.6, second, subject to section 4.19.5A, to reimburse *market participants* for funds recovered by the *IMO* under Chapter 9, section 6.14.5.2, on a prorated basis according to, and in an amount that does not exceed, the amount so recovered, third, to replenish the reserve threshold specified in section 4.18.3, and the balance shall remain in the *TR clearing account*.
- 4.19.5A In the event that the *IMO* cannot, after taking all reasonable steps to do so, locate *market participants* from which funds were recovered by the *IMO* under Chapter 9, section 6.14.5.2, any amount that would otherwise be distributed to such *market participants* under sections 4.19.3 and 4.19.5 shall remain in the *TR clearing account*.
- 4.19.6 Where, in respect of a given *TR auction*, the aggregate amount received by the *IMO* in respect of the purchase of *transmission rights* is less than the aggregate

amount payable by the *IMO* in respect of the sale of *transmission rights* in that *TR auction*, the shortfall shall be funded first by use of all funds from the *TR clearing* and then, by the borrowing of short-term funds in accordance with section 6.14.4 of Chapter 9.

**PART 5 – IMO BOARD COMMENTS**

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