Bruce Power response to the Discussion Paper prepared by the Market Surveillance Panel, February 2003 on
Congestion Management Settlement Credits (CMSC) in the IMO-Administered Electricity Market
Issues related to constrained off payments to generators and imports

This is a well written thought provoking paper, and raises a number of complex and interlinked issues. Among these are:

- The theoretical basis of the unconstrained and constrained schedules
- Similar treatment of injection and withdrawal resources
- Transmission charging – locational charges and compensation for technical limitations
- Stranded asset cost recovery
- Locational Marginal Pricing (LMP)

The Market Surveillance Panel is proposing the elimination of constrained off energy payments, for generators and imports. Unfortunately, a relatively minor rule change to close out a perceived inadequacy of the present arrangements will open up new opportunities for unscrupulous participants to game the market. This particular proposed change is perceived to be discriminatory against generators and will be vigorously opposed.

We would like to make several points, which we believe will provide sufficient rationale for not proceeding with this proposal.

§ The ending of constrained off payments would not allow generators compensation for failures or inadequacies of the transmission system. Since existing generators have no choice in how to deliver their product to market, because of the existing structure and ownership of the transmission system, they should not be held financially responsible for transmission system congestion or failure. Altering the existing system of constrained off payments would significantly increase the business risk to existing generators, for transmission system congestion or failures. Without CMSC a generator could suffer a substantial loss were a Hydro One switchyard to fail yet have no route for compensation.

§ There is widespread concern that Ontario will be facing a capacity shortfall by 2006/7 if new generation is not committed soon. Removal of constrained off payments for inadequate or failed transmission would serve as a further disincentive for new generation to locate in the province. Furthermore, such a change would be seen by potential generators as further indication of regulatory uncertainty, making Ontario a less attractive investment climate.

- The existing CMSC scheme is an integral part of Ontario's one price market. It is inadvisable to change one component of the market, as it will likely cause unexpected, and quite likely undesirable market effects.

§ The alternative to CMSC is some form of LMP. This is being considered by the IMO and market participants, however it will not be implemented before Oct 2004, and recent indications are that FERC seems to be moving away from LMP. Constrained off and constrained on payments balance each other, to ensure adequate generation is available. It seems inequitable to recompense generators constrained on, and not recompensing those constrained off. In both instances the generators are foregoing opportunity to earn, as a result of system technical limitations. Yet the IMO is only suggesting recompense in one instance.

§ Removing CMSC constrained off payments would make the indications of where congestion is occurring less transparent. This is an essential piece of information in identifying need for new or upgraded transmission. CMSC payments are currently the only indicator of where new transmission and generation is most needed. The Market Surveillance Panel is correct in noting that there is a paucity of information in the market about where geographically CMSC payments are being made. We believe this information should be made public, to allow potential generators to make informed locational decisions.

- The lack of a coordinated transmission planning effort in the province needs to be addressed. The IMO has the signals of where it is needed, but not the authority to direct HONI to build it, and HONI has no mechanisms for recovering their costs, if so directed.

§ We do not support CMSC payments if they are restricting value that should have been received by all participants to a single participant, unless it is reasonable to do so e.g. IMO paying constraints to a hydraulic unit to generate in the evening rather than the morning results in lower MCP for all generators and CMSC payments to the hydraulic unit. This is a different case than payments to a hydraulic unit temporarily constrained down by a transmission system problem. It seems inappropriate for the IMO to constrain energy limited hydraulic units so that their energy can be used during peak demand periods later in the day. This is distorting the price signals in the market resulting in economic inefficiencies while paying the owners twice for the same energy. The market should be left to clear without intervention.

§ The overall market design to date has treated dispatchable generation and dispatchable demand the same, and this practice should be continued. This paper suggests they should be treated differently. Perhaps more wide ranging changes to the market structure including multi-interval optimization, no-load and start-up costs etc. would cure the problem rather than the symptoms. These initiatives are being considered as various aspects of the Market Evolution Program, and should be implemented as a package with predictable results, rather than piecemeal.

- The use of constrained generation in the unconstrained generation schedule is an interesting issue. In setting the market clearing price the present methodology assumes that the transmission system is without technical limitations. Those generators that are forced to change their operating regime in response to real technical limitations are then compensated. The IMO is suggesting that those generators that are not forced to change their operating regime are also being adversely affected by the technical limitation and should also be compensated, ie the price they should receive is greater than that they are receiving. However before this could be implemented, an answer would have to be sought to what the clearing price would be if the system was, due to technical limitations, divided into two equally sized but differently priced zones. One answer would be to draw the analogy with LMP and push for its early introduction.

- If CMSC payments were withdrawn, then how would a generator be compensated when his ability to transmit power to market was reduced due to the construction of a new power station nearby? The simple solution would be for the transmission system operator to require the new generator to pay for the transmission system reinforcements required to not reduce the first power station's transmission access. However what would happen were the first generator to be increasingly constrained off due to incremental remote load increases? This would seem to indicate that any adjustments to the CMSC mechanism would also require changes to the transmission connection and use of system charges.

- The MSP statement, on p19 that "the maximum allowable payment per unit of energy constrained off should exceed the market clearing price" is theoretically true. However, if implemented it would reduce the ability of market participants to indicate their desire to avoid being constrained down through price signals.