

# Constrained Off Exports

## Agenda Item # 6

Intertie Trading Sub-committee

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# Reminder Constrained off CMSC payments to exports

- If there is internal congestion, the export is constrained off and receives a constrained off payment equivalent to their “lost profit opportunity”. The difference between their bid price and the MCP.
  - Ontario market through CMSC regime agrees to pay the export its lost profit opportunity - the level of its bid - which compensates exporter for cost of obtaining energy elsewhere
  - Provides exporters with a form of perfect insurance against the transaction failing due to internal congestion
  - In a sense the export is financially firm if constrained off
  - Payment is socialized across all Ontario loads including exports

# Last time Presented

- Traders felt the constrained off Export payments were the only mechanism they had without a DAM to be able to hedge their Risk
- Traders required such compensation to hedge them against the risk of Selling in the NY DAM and having to buy back from the NY RT when the Ontario export was constrained off
- Removal of this payment stream could effect liquidity in terms of imports / exports
- Much of the trade between Ontario and New York has financial risk due to seams issues and traders tend to look at their P/L over a longer term

## MAU Work Undertaken Since The Meeting

- To determine the size of the Constrained off Compensation payment from Ontario
- To determine the Risk in NY associated with an export being Constrained off and the Exporter exposed to the DAM to RT NY price difference.
- Is the payment commensurate with the risk?

# Constrained Off Export Payments

## Jan 2003 to Feb 2004

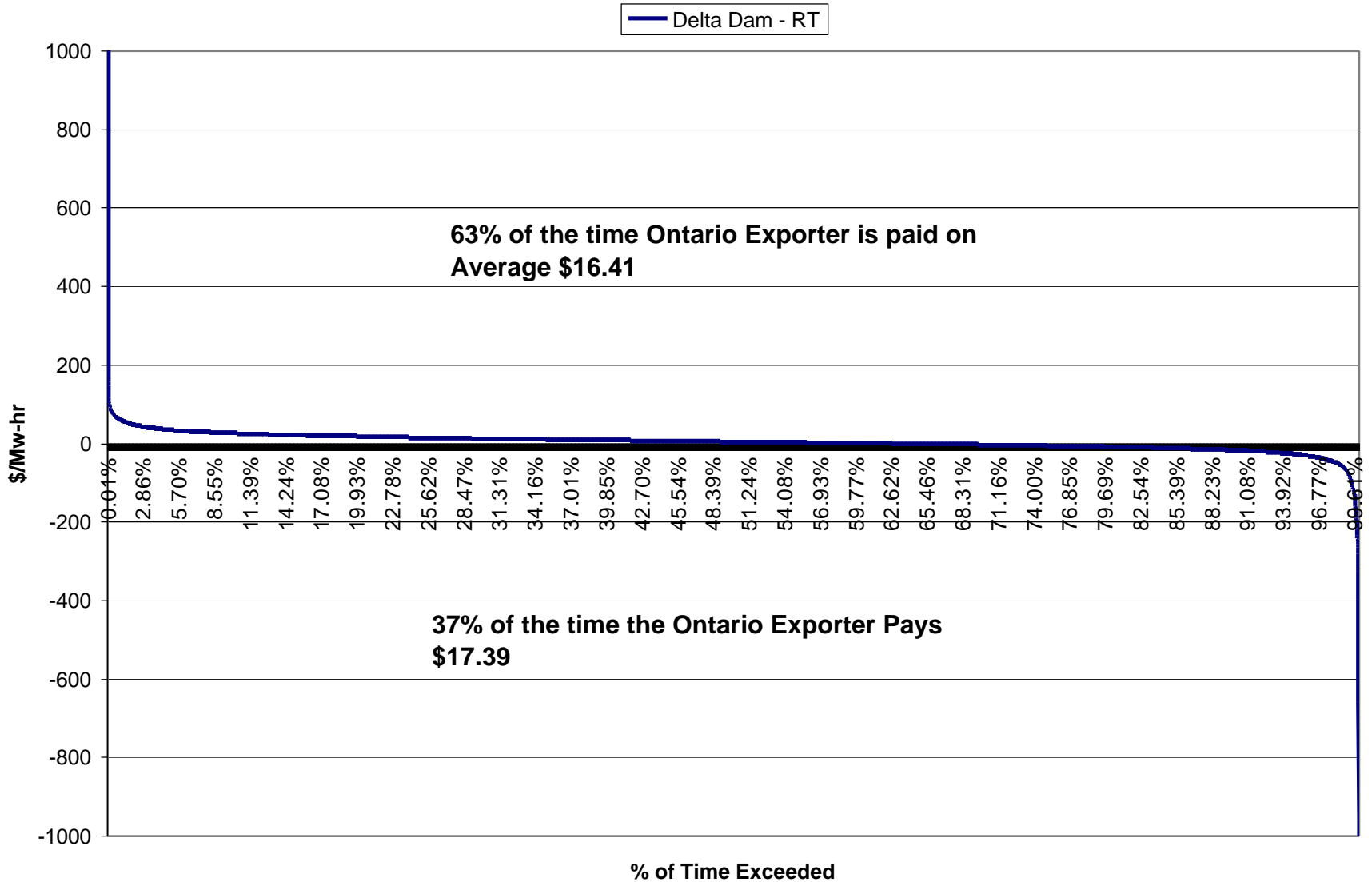
Constrained Off Export Payments Jan 2003 - Feb 2004				
		Constrained Off Exports	C Off Payments	C Off
		Mw-hr	\$	\$ / Mw - Hr
	MBSI	39,912	\$ 1,265,662	\$ 31.71
	MISI	5,436	\$ 369,262	\$ 67.92
	MNSI	5,008	\$ 380,191	\$ 75.92
	NYSI	210,733	\$ 7,096,573	\$ 33.68
	PQ	6,894	\$ 693,226	\$ 100.56
		267,983	\$ 9,804,914	\$ 61.96

\* MBSI, MNSI, PQ designated non-competitive export inter-ties and C Off payments subject to review

## New York Financial Risk of Being C Off

- The analysis assumed a trader had sold 1 Mw into the NY DAM zone A and had to buy back in Real-time as the Ontario export was constrained off,
- the exporter on average would have been \$4.09 US better off by having that Mw constrained off.

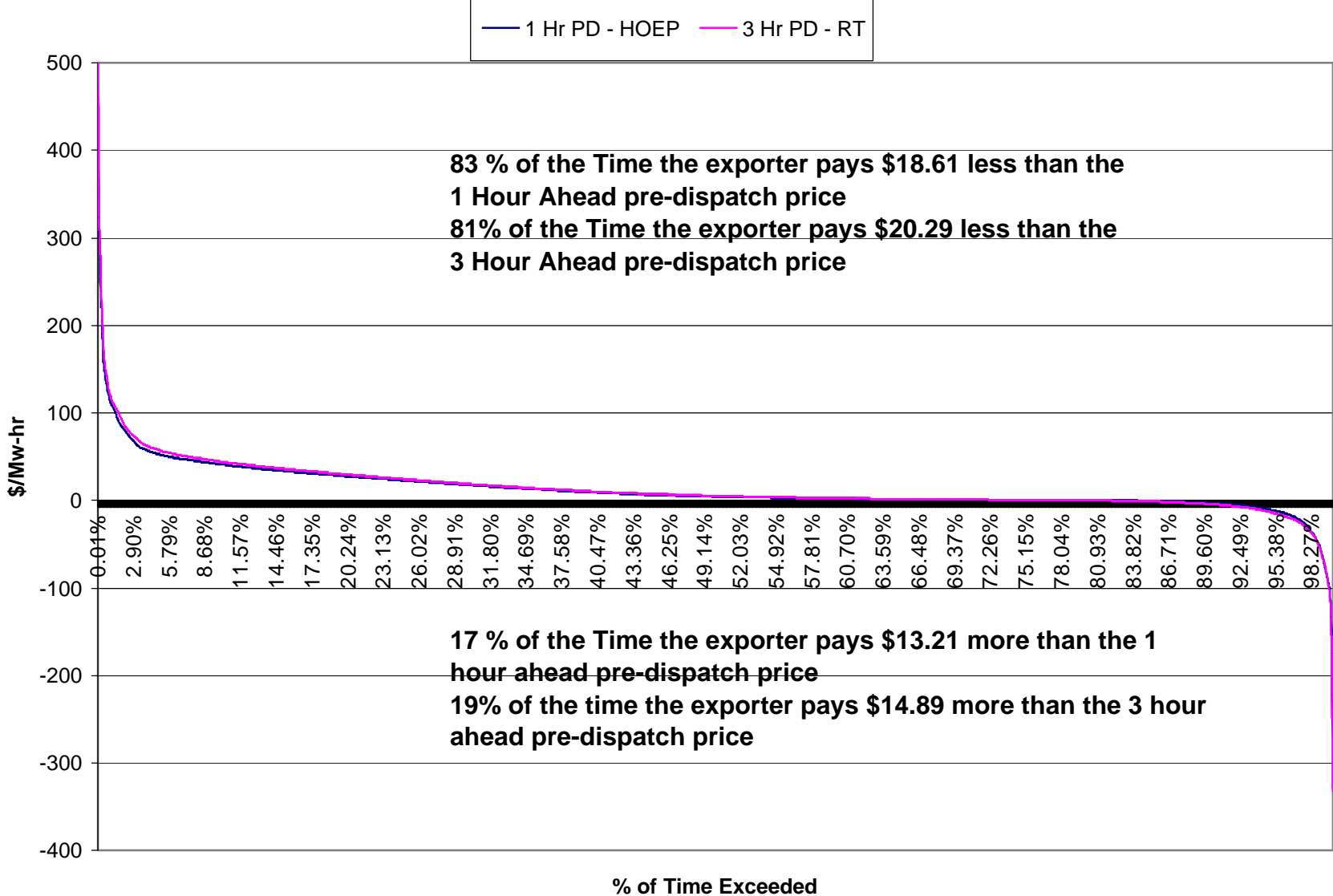
### NYISO Zone A Delta Dam - RT Jan 2003 to Feb 2004



## **Other Stats. Not Related to the Constrained Off Risk**

- The Exporter is chosen at the 1 hour ahead pre-dispatch Price and has to pay the real-time Ontario price to actually export the Mw's
- On average the difference between the 1 hour pre-dispatch price to the RT price is \$13.09 Can.
- Or in other words on average the exporter pays \$13.09 less than the pre-dispatch price they have been accepted at.
- If we look at the last posted price difference before the exporter must make a decision the exporter pays \$14.19 C less than the 3 hr ahead pre-dispatch price.

### Ontario 3 / 1 Hr PD MCP - RT HOEP Jan 2003 - Feb 2004



# What We have Heard

- The exporters do have Risk
- While the present Constrained off regime continues, there needs to be recognition that some form of Constrained off exports are required by traders to hedge their risk and ensure liquidity in the market

## The Question?

- Is the size of the payment commensurate with the Risk?

# Proposal 1

- Constrained Off payments continue to all exports
- Still willing to compensate for marginal profit
- Reference prices based upon exports offers are no longer used in the Local Market Power rules for exports
- Similar to the Non-competitive interfaces the MCP becomes the only reference price
- All constrained off exports are reviewed by the LMP process, we no longer use the sufficient competition or Transmission test to determine safe harbours.
- Surrounding market prices or actual costs will be used as a bench mark / basis for the adjustment

# Proposal 1 cont'd

- Participants have the right to inquest an inquiry where they can provide cost based information
- Participants can go to dispute

# Proposal 2

- At the TP after the Traders discussion there was a “proposal” to perhaps use a 2 hr limit on the Constrained off payments as exporters should be able to re-prepare / or make other arrangements.

# Next Steps

- Back to the TP for dicussion
- Review of Market Rules to determine what minor changes are required

**Additional slide - not included with original presentation**

**NY Dam - RT (only events when exports were constrained off)  
Data from Jan 1 2003 to Jan 31 2004  
For Zone A NYISO**

