

PROPOSED GUIDING PRINCIPLES FOR ASSESSING ISSUES & SOLUTIONS

Part of the objectives of the Market Pricing Working Group will be:

- To assemble and maintain an inventory of pricing issues and rank the relative importance and priority for reviewing these issues; and
- Provide advice on potential solutions to specific pricing issues through analysis and discussion.

The use of a set of guiding principles or evaluative criteria can provide an objective yardstick against which the priorities of these issues can be ranked, and potential solutions to these issues can be judged and recommended.

Prior to market opening the IMO Board of directors adopted six guiding principles to ensure consistent decisions and recommendations were made with respect to changes to the market design. These six guiding principles were a refinement of the six fundamental principles of market design, which were defined and agreed to by the Market Design Committee.

It is proposed that the Market Pricing Working Group use the same guiding principles to aid it in assessing issues and solutions to the same. The proposed principles:

- have already gone through extensive stakeholder approval both at the IMO Board and at the Technical Panel; and
- are consistent with the previously stated direction of government policy as well as the objectives of the OEB.

It is proposed that the criteria be referenced in characterising the impacts of identified issues and to focus the working group's attention on the tradeoffs that may have to be made in the assessment of potential solutions to these issues.

Furthermore, the reality of the time and cost constraints which exist and the tensions that these constraints create with the guiding principles are extremely important considerations. As a result, "practicality and implementability" is worthy of explicit recognition when applying these principles within the groups stated objectives.

The set of existing guiding principles for market design is provided in attachment A.

ATTACHMENT A

Guiding Principles of Market Design

Principle #1 – Efficiency

The market should promote allocative, productive and dynamic - efficiency in the provision of electricity by minimizing the total resource costs of providing power to all customers, and by enhancing market participants' choices in conducting commercial transactions within the market.

- The market should support allocative and productive economic efficiency, encouraging generation and delivery of electricity that meets the needs of customers at the least cost.
- The market should support dynamic economic efficiency, encouraging technological progress.
- The market should generate signals that encourage efficient investment in all segments of the electrical system.
- The market should encourage competition and thereby efficiency through participants' choices in conducting commercial transactions.

Principle #2 – Fairness

The market should provide for open non-discriminatory access by all who meet reasonable publicly stated prudential and technical standards. There should be no artificial barriers to entry or exit.

- The market rules must be non-discriminatory.
- Participants must meet prudential and other accreditation requirements that are appropriate to maintain confidence in and viability of the marketplace.
- The actions of the IMO must be clearly governed by written rules and protocols.
- All market participants must have equal opportunity of access to non-confidential market information

Principle #3 – Reliability

The market should promote high standards of reliability and quality of electrical service and of access to electricity.

- The market rules and procedures must ensure that participants can fulfill their roles in the marketplace without imposing undue restrictions on participation.
- The IMO must have sufficient powers to operate the IMO-administered markets and the IMO-controlled grid in a manner that best ensures reliable service and quality of supply to the greatest number of customers.

Principle #4 – Transparency

The market should be as simple and transparent as feasible and should promote timely, non-discriminatory release of non-confidential market and system information to all market participants.

- The market rules and protocols should be as simple as practical, consistent with achieving other market objectives.
- All market actions by the IMO should be verifiable and able to be audited.
- All actions by market participants when governed by market rules and protocols should be able to be audited and traceable.
- Changes in the rules and protocols should follow documented procedures and ratification by the appropriate governing body.
- Market participants should have access to market and system information necessary to enable them to fulfill their licensed role in the market, to make investment decisions and to participate in the market process fairly, while recognizing the legitimate needs of market participants to protect commercially-sensitive information.

Principle #5 – Robustness

The market rules and protocols should be sufficiently comprehensive so as to ensure that only extraordinary circumstances can upset the functioning of the market.

- The IMO should have sufficient authority to deal with any “extraordinary circumstances” on an interim basis to ensure that the market is operated as far as possible according to these principles and is returned to normal market functioning expeditiously.
- Procedures for changing market rules and protocols should be efficient, enhancing the ability of the IMO to deal with recurring “extraordinary circumstances” and encouraging the evolution of a more competitive electricity market.

Principle #6 – Enforceability

The market rules should include authorities and mechanisms in that promote and enforce adherence to the rules.

- The market must provide for the imposition of deterrent penalties on market participants for transgressions of the market rules or protocols.
- The investigation of complaints should be governed by the market rules and must balance a respect for due process with expediency and efficiency.

Practicality and Implementability

In applying the foregoing principles, consideration must be given to the complexity and effort (cost, time and functionality) required to implement the market

- There must be due regard for budgetary implications in the implementation of the market rules.
- Due consideration must be given to the impacts on budget and market implementation schedule in assessing changes to market rules.
- Consideration must be given to the ability to implement market rules requirements into participant and the IMO systems, practices and processes.
- Implementation complexity, cost and schedule considerations may have to themselves drive changes in the market rules.
- The market rules must be implemented in a manner that ensures achievement of a viable operating market and continued reliability of the IMO-controlled grid.