



Guideline

Guidelines for Additional Compensation during Administrative Pricing

Issue 3.0

This document is to be used to evaluate requests for additional compensation for hours where *administrative pricing* has been applied

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1.0	Initial Release of Guidelines	October 24, 2003
2.0	Revised Market Rules	July 26, 2004
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Related Documents

Document ID	Document Title
MDP_PRO_0030	Market Manual 4, Part 4.5: Market Suspension and Resumption
IMP_PRO_0034	Market Manual 4, Part 4.3: Real Time Scheduling of the Physical Markets
MDP_PRO_0033	Market Manual 5, Part 5.5: Physical Markets Settlement Statements

Table of Contents

Table of Contents	iii
Table of Changes	iv
1. Introduction	1
1.1 Purpose.....	1
1.2 Scope.....	2
1.3 Who Should Use This Document	2
2. Scope of Compensation	3
2.1 Overview	3
2.2 Generation Facilities	3
2.3 Loads	3
2.4 Exports.....	4
2.5 Imports.....	4
2.6 Energy Limited Resources	4
2.7 Application for Compensation	5
Appendix A: Process for Requesting Additional Compensation	A-1
Appendix B: Methodology to Establish Compensation for Hydroelectric Facilities	B-1

Table of Changes

Reference (Section and Paragraph)	Description of Change
All	Name change IMO to IESO

1. Introduction

During a suspension of *market operations* and at other times specified in section 8.4A.2 of Chapter 7 of the *market rules*, the *IESO* may set *administrative prices* to be used as the basis for *settlements*. To the extent that these *administrative prices* do not adequately compensate *market participants* for following *dispatch instructions*, for those conditions specified, section 8.4A.9 entitles *market participants* to additional compensation as calculated in section 8.4A.10.

This guideline is intended to inform *market participants* about eligibility for additional compensation and the basis of the amount of compensation available from the *IESO* under the *market rules*. To request such compensation, the *market participant* must complete and submit the request application IMO-FORM-1398¹.

This guideline is not meant to provide either operating or safety criteria.

Only *participants* in the *IESO-administered markets* may apply for such compensation. Where there are multiple *market participants* associated with a single *registered facility*, only one request for compensation will be considered. However, it should be noted that, as for other *settlement* payments, compensation would be directed to the *metered market participant*.

Additional process comments (Appendix A) and a conceptual description of the methodology to establish compensation for hydroelectric *facilities* (Appendix B) are also included as attachments to this guideline.

1.1 Purpose

The purpose of this document is to identify the guidelines that the *IESO* may use in assessing requests submitted by *market participants* for additional compensation during those hours where the *IESO* has applied *administrative prices* under section 8.4A.9 of Chapter 7 of the *market rules*.

This guideline also provides *market participants* with directions regarding the making of requests for such additional compensation, and the related interactions that *market participants* may anticipate with the *IESO*.

¹ This form is available on the *IESO* web site
http://www.ieso.ca/imoweb/pubs/marketOps/mo_f1398_AdmnPriceAddnComp.doc

1.2 Scope

This document is to be used for by the *IESO* for the purpose of assessing requests submitted by *market participants* for additional compensation under section 8.4A.9 of Chapter 7 of the *market rules*. This guideline is also intended to provide assistance to *market participants* when submitting requests for additional compensation.

This guideline does not apply to settlement adjustment or compensation issues associated with administrative prices established according to section 8.4A.5 of Chapter 7. See Market Manual 5, Part 5.5: Physical Markets Settlement Statements for a description of the associated process.

1.3 Who Should Use This Document

This document is used by the *IESO* for evaluating requests for additional compensation. Use of this document will ensure that the *IESO* responds consistently to all *market participants* regarding requests for additional compensation. This guideline will also help *market participants* understand *IESO* criteria in this regard.

- End of Section –

2. Scope of Compensation

2.1 Overview

Compensation is only available to *market participants* where a *registered facility* has received and followed *dispatch instructions* issued by the *IESO*. In essence, the *market participant* should be held whole for its operating costs, including:

- fuel costs (or, if energy limited *generation facilities*, expected future value or opportunity costs in lieu of fuel costs),
- variable operating costs, and
- maintenance costs.

Section 8.4A.10.2 allows additional compensation equal to 10% of the above costs, except where, in the *IESO's* opinion, the expected future value or opportunity cost referred to above adequately covers such amount. Compensation under section 8.4A.9 is subject to published materiality limits, as specified in Appendix B of Market Manual 4, Part 4.5: Market Suspension and Resumption.

Payments made under bilateral contracts are outside the *IESO-administered market* for energy. Therefore, any losses incurred due to differences between contract prices and *administrative prices* are not eligible for additional compensation.

2.2 Generation Facilities

Only *registered facilities* that received *dispatch instruction* during the hours of the *administrative pricing* are eligible for this additional compensation. Under normal circumstances, *self-scheduling* and *intermittent generation facilities* do not receive dispatch instructions and are thus not eligible.

2.3 Loads

The intent of the this *market rule* is to provide additional compensation where the *administrative price* based payment for energy provided is not adequate to cover costs incurred. Under normal circumstances, *dispatchable loads* do not provide energy and do not receive compensation for energy. However, *dispatchable loads* that received *dispatch instructions* which require running *generation* equipment connected to the *dispatchable load*

facility are eligible for compensation in relation to additional fuel or other variable costs for that *generation*.²

Non-dispatchable loads are not eligible for additional compensation because they do not receive *dispatch instructions* from the *IESO*.

2.4 Exports

Similarly, export loads are not providing energy and do not receive compensation, and are thus not eligible for compensation.

2.5 Imports

Emergency import transactions are compensated according to the *emergency* agreements with the relevant *control areas* and such import transactions are not eligible for additional compensation.

Imports *scheduled* through normal market processes would not be eligible for compensation since the IOG payment would ensure total payments are at least equal to their offer price.

2.6 Energy Limited Resources

Energy limited *generation facilities*, such as hydroelectric *facilities*, will be compensated for expected future value of the resource, in the form of opportunity costs, as an alternative to fuel costs. Determination of opportunity costs will be affected by whether the additional energy is likely to have been used at some future date, or is more likely energy which would have been used at a different time within the same day or 24 hour period.

For example during an extended suspension of *market operations*, only the portion of generation during the period of suspension of *market operations* that exceeds normal total daily generation levels will be paid opportunity costs based on the value of generation for some date or period in the future. The value would be related to the storage horizon for the energy limited fuel or water and expected or actual prices over that period. The amount of energy treated this way may be based upon actual generation that exceeded the levels generated in the same hours and days used as the basis for the *administrative prices* (i.e. the base case or average historical production). (See Appendix B for further explanation.)

² During the suspension of *market operations* and use of *administrative pricing* in August 2003, additional compensation would have been considered had load been dispatched to run generation, or dispatched to consume at higher levels in order to balance generation and load levels as the system was being restored. However, such conditions did not apply. The issue of additional compensation to loads in general is being reviewed (see Issue 924 of the Participant's Issue Log on the *IESO* web site.)

Alternatively, comparing actual production on a day with *administrative pricing* and the historical pattern of production may imply that the energy resources have been shifted from one hour to another within the day or 24 hour period. In this case the opportunity cost will be based on the difference between *administrative pricing* at the time of generation and the later hour when it might otherwise have been used.

Run of river hydroelectric resources, like other baseload plant that do not have a future opportunity cost, will not be compensated beyond the administered price, except where additional water may have been released from upstream storage.

The *market rules* define a *facility* as being located within the *IESO control area*. Thus the use of expected future value or opportunity costs for an energy limited resource applies only to a *generation unit* within the *IESO control area*.

2.7 Application for Compensation

Requests for compensation should be made using IMO-FORM-1398 “Additional Compensation during Administrative Pricing”, submitted to the Market Assessment and Compliance Division (MACD) of the *IESO*. See Appendix A for more details about data requirements and the submission process.

Market participants may choose to request compensation for individual hours where the *administrative price* is inadequate to cover costs, or apply for block compensation over the total period.

If the hourly approach is taken, most costs should be assignable to or distributed across the hours for which compensation is sought. In some cases such as an extended suspension of *market operations*, certain costs, such as may be incurred before the start-up of a unit, do not need to be distributed across all production hours. This would need to be determined on a case-by-case basis.

For energy limited resources, the selection of an hourly approach may still need to consider or recognize the energy production and payments in other hours over the day or next 24 hours. (See previous section on energy limited resources, and Appendix B.)

While the *market rules* provide that compensation is based on *dispatch instructions*, revenue meter readings will be used to calculate compensation in the event that a record of *dispatch instructions* is not available, as may be the case due to a suspension of *market operations* or for other reasons.

Applications for compensation must be supported by sufficient information, certified by an authorized representative of the *market participant*, to allow for verification by the *IESO* of the compensation request.

If *market participants* are not satisfied with the *IESO's* decision regarding additional compensation, *market participants* have recourse to the dispute resolution provisions of the *market rules*.

– End of Section

Appendix A: Process for Requesting Additional Compensation

The process for requesting additional compensation has been summarized below: See also Market Manual 4, Part 4.5: Market Suspension and Resumption, for an outline of the steps in the process, which are similar for suspension of *market operations* and at other times.

1. Supporting Documentation

- Copies of receipts for any unusual expenses should be provided whenever possible; however expenses will be considered without receipts if none are available.
- The *market participant* must submit a statement of the reason for expense and the basis for the amounts requested.
- For example, for fuel costs, it would be sufficient to indicate the average expenditure for fuel in the previous month (or fuel billing period) on the basis of cost per unit of fuel, or cost per MWh of production.
- If fuel costs are quoted per unit of fuel, further information would be needed such as average heat content (MMBTU per unit of fuel) and heat rate of the units.
- If the *market participant* has already submitted heat rate information to the *IESO* for other reasons, for example for surveillance purposes, the *market participant* may choose to indicate the *IESO* may use this same information for the purpose of assessing the claim for additional compensation.
- The *IESO* reserves the right to conduct audits or seek other means for verifying the submitted data, however, as a starting point the *IESO* will accept the statement of costs, as certified by the *market participant*, for the purpose of verifying data. This assumes that the statement of expenses, and any elaboration following discussion with the *IESO*, is sufficiently detailed for this purpose.

2. Submission of Information

- IMO-FORM-1398 provides space for summarizing the compensation request. More detailed statements should be set out as attachments to the form. Where extensive data is supplied as part of the submission, the *IESO* requests that this be provided in a spreadsheet compatible format.
- The *market participant* may choose the means for delivering such additional data – e.g. on CD delivered by mail or courier, or by email.

3. Timelines and Interaction between IESO and Market Participants

- The *IESO* requests submission of IMO-FORM-1398 to be completed within 2 months of the period for which additional compensation is requested.
- The *IESO* will attempt to complete the process of assessment within 2 months of submission of the request, with a formal response to the *market participant* regarding the level of compensation to be paid.
- Following receipt of the request, the *IESO* may contact the *market participant* to discuss the request and information submitted.
- Where the *IESO* determines to include only a portion of some requested costs, or costs associated with only a portion of the production, the *IESO* will contact and discuss this with the *market participant*.
- In particular, for energy limited resources, the determination of opportunity costs and what energy is eligible, will be explained and may be determined based on interactions with the *market participant*.

4. Settlements

- Invoicing for the determined compensation will occur on the next invoice date following the final determination by the *IESO* and formal response and notification to the *market participant*, subject to *IESO* internal timing requirements for *settlements*.
- The information will appear on the *preliminary settlement statement* for the final day of the *billing period*, as well as in the *invoice* released that day.
- Compensation will appear as a credit under charge type 113, with a separate item listed for each *registered facility*, representing the total compensation for the period of suspension of *market operations*. Other itemization or sub-totals may be accommodated upon request to the *IESO*.
- The comment field for each item will indicate “Additional Compensation for Administrative Pricing Credit”.

5. Eligible Costs

- Fuel Costs
Actual delivered cost of fuel for:
 - production
 - start-up (cold start-up cost, if appropriate)
 - speed-no-load
- Maintenance Costs
 - Incremental maintenance costs associated with the operation during this period for start-up or as a result of ongoing production
- Operating Costs

- Incremental costs associated with the plant operation during this period for start-up or production,
- Costs not otherwise covered by fuel or maintenance costs, e.g. labour costs and costs for other plant processes to support operation, such as:
 - fuel handling, plant chemistry, flue gas desulphurization, waste disposal etc.
- Other Variable Costs
 - Other variable costs not captured above
 - For example for a constrained on *dispatchable load*, energy or other operating costs needed to support the additional consumption³.
- Further Comments on Costs
 - Gross *facility* production is eligible for compensation to the extent that it reflects net delivered production plus eligible station service. In general, station service is eligible only where this relates to the incremental production or incremental requirements during start-up.

³ This was potentially applicable during the system restoration in August 2003 following the system blackout, although no such event was noted. As discussed earlier, there is an open discussion of additional compensation for loads in general (see Issue 924 of the Participant's Issue Log)

Appendix B: Methodology to Establish Compensation for Hydroelectric Facilities

1.0 Introduction

The methodology to establish compensation for hydroelectric *facilities* shall focus on the following determinations, namely:

- Determine Energy Eligible for Compensation
- Determine Opportunity Cost of Water

2.0 Determine Energy Eligible for Compensation

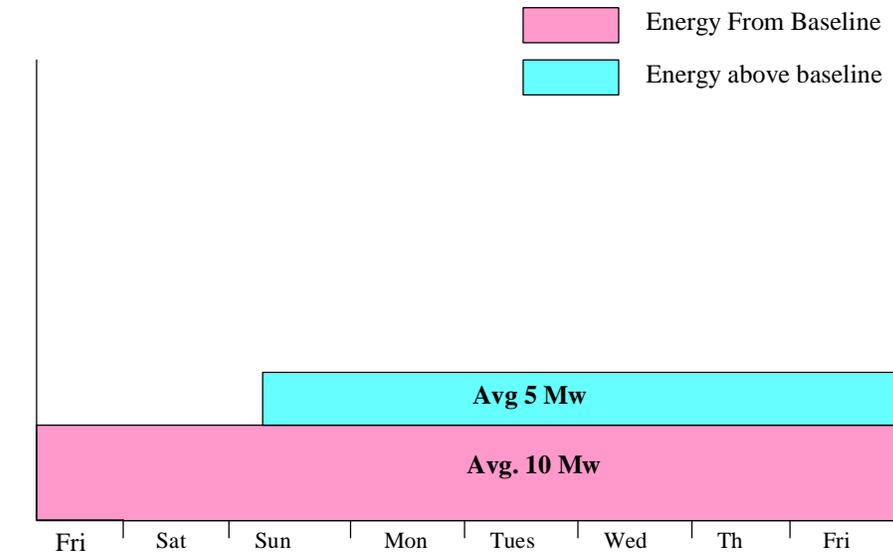
In determining energy eligible for compensation, due regard shall be given to the following factors:

- Run of River Hydroelectric;
- Energy Limited Hydroelectric; and
- Spill

2.1 Run of River Hydroelectric

- Traditionally where there is no storage of water, there would be no future opportunity cost.
- If it can be established that energy was withdrawn from upstream storage reservoirs to supplement the run of river station, compensation would be available for that increased energy

Run of River Methodology



2.2 Energy Limited Hydroelectric

Establish the energy that would have been run on a daily basis through normal periods, (the “baseline”)

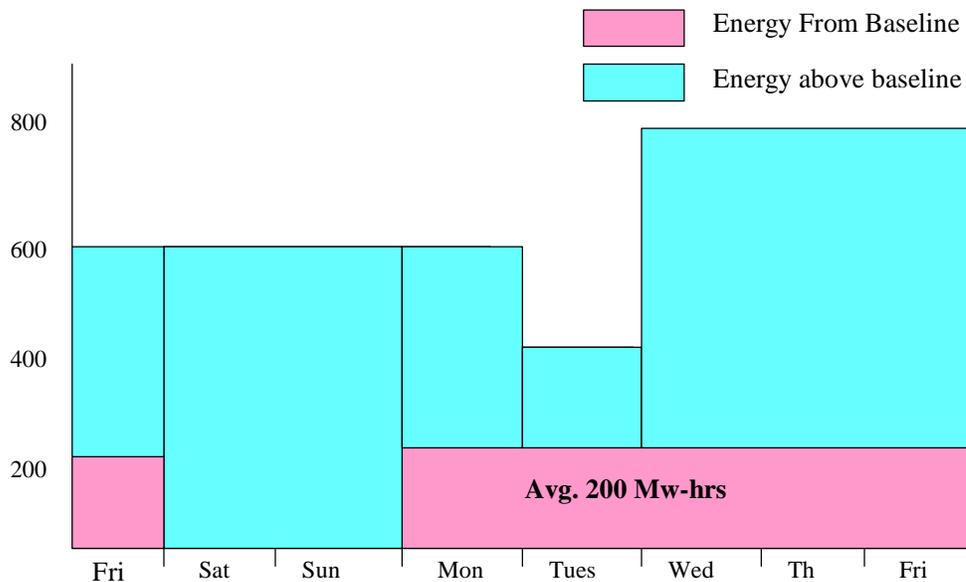
- Use data as close to the event as possible to be indicative of actual inflows.
- Use data from the unconstrained schedule as that is more indicative of a hydroelectric generator’s plans.
- Attempt to use days representative of the administered prices to avoid periods where higher prices stimulated increased production.

Using the actual MWh delivered, determine that portion of the *energy* output associated with an opportunity cost.

For that portion of the *energy* output associated with opportunity cost (i.e. above the baseline), determine the revenue paid via administered prices relative to the opportunity cost. The difference would be the compensation payment.

Revenue paid for the energy above baseline can be calculated assuming either the average energy price that day (unweighted HOEP average), or the average price paid that day for energy from the facility.

Hydroelectric Method



2.2.1 Intra-day Energy

The above approach applies to water used or energy production above normal levels, as determined in total for a given day. In those situations, opportunity costs for the increase in total daily production is based on the costs in some future period.

There may also be opportunity costs associated with the movement of water or rescheduling production during a day. This could occur during an extended period of *administrative pricing*, such as during a suspension of *market operations*, or during shorter duration events:

- i) If it is determined that water has been moved from a higher priced hour in order to generate in an hour where a lower administrative price has been applied, there may be compensation due for this difference.
- ii) If it is determined that water has been moved from a lower priced hour to an hour where a higher administrative price has been applied, there would be no additional compensation for this hour.

2.3 Spill

If the hydroelectric *generator* can prove that water was spilled, that portion will be considered water having a future opportunity cost. This requires spill records to be documented.

If the hydroelectric *generator* can prove maximum gate operation, that portion of *energy* produced above efficiency levels can be considered as having an opportunity cost.

3.0 Opportunity Cost

In determining compensation for the future value of water, the *IESO* will make the following assumption:

Assumptions:

- Due to the “short” duration of the event, it will likely not impact upon the overall future performance of the *generation facility*.
- Assume the *facility* will tend to self-repair (i.e. recover) the additional water discharge within the next three months if prices are below its future view of energy worth.
- *IESO* will consider out of the money offer prices that the *generation facility* was willing to generate for the surrounding time period (before and after the period of suspension of *market operations*) if these prices were not strategic in nature.

– End of Document –