

Phase Two OR Market Redesign

April 1st, 2011



Agenda



- Review OR Redesign Initiative
- Changes to Date
- Outline Proposed Phase Two Changes
- Third Party Asset Substitution
- Next Steps

OR Market Redesign Initiative



- Consultation started in 2008
- AESO Recommendation Released January 2009
- The key goals of the OR redesign are:
 - Reduce AESO influence in the market
 - Improve market transparency
 - Create better alignment with energy market
 - Simplify the design
- Revised AESO Recommendation Paper Released March 2010

Phase One Changes



- The AESO made two changes in July 2010
- All active volumes were moved to D - 1
 - Eliminated afternoon session
 - Moved all volumes to a single point
 - Impact has been positive
- Improved transparency in the OTC market
 - Better reporting of OTC trade prices

Proposed Phase Two Changes – Standby Market



- The AESO will submit \$0, \$0 bids
 - Represents a volume only bid consistent with Active
- Participants will continue to have flexibility to offer variable premiums and activations
 - Changed from the Recommendation Paper
 - Allows current flexibility in reflecting preferences
- Market will close and be ‘locked down’ at specified times
 - Consistent with Active market
- AESO will clear the market

Standby Clearing – Representative Example



Bid	Volume	Premium	Activation	
AESO	50	\$0	\$0	
Offer	Volume	Premium	Activation	Clearing Order
1	50	\$0.01	\$200	\$40.01
2	50	\$5	\$50	\$15.00
3	50	\$8	\$250	\$58.00

"Clearing Price" = Premium + 0.2 * Activation

Timeline



- All markets open – AESO posts volume requirements
- 9.10 Close Active Regulating Reserve
- 9.20 Close Active Regulating Reserve (Super Peak)
- 9.30 Close Active Spinning
- 9.40 Close Active Supplemental
- 9.50 Close Standby Regulating
- 10.00 Close Standby Spinning
- 10.10 Close Standby Supplemental

Proposed Phase Two Changes – 5 MW Block



- Require that a providers first (cheapest) offer is at least 5 MW
 - Requires a change to the Watt-Ex agreement
 - Ensures that all offers, if cleared, result in a valid position
 - Will reduce the number of cancelled trades

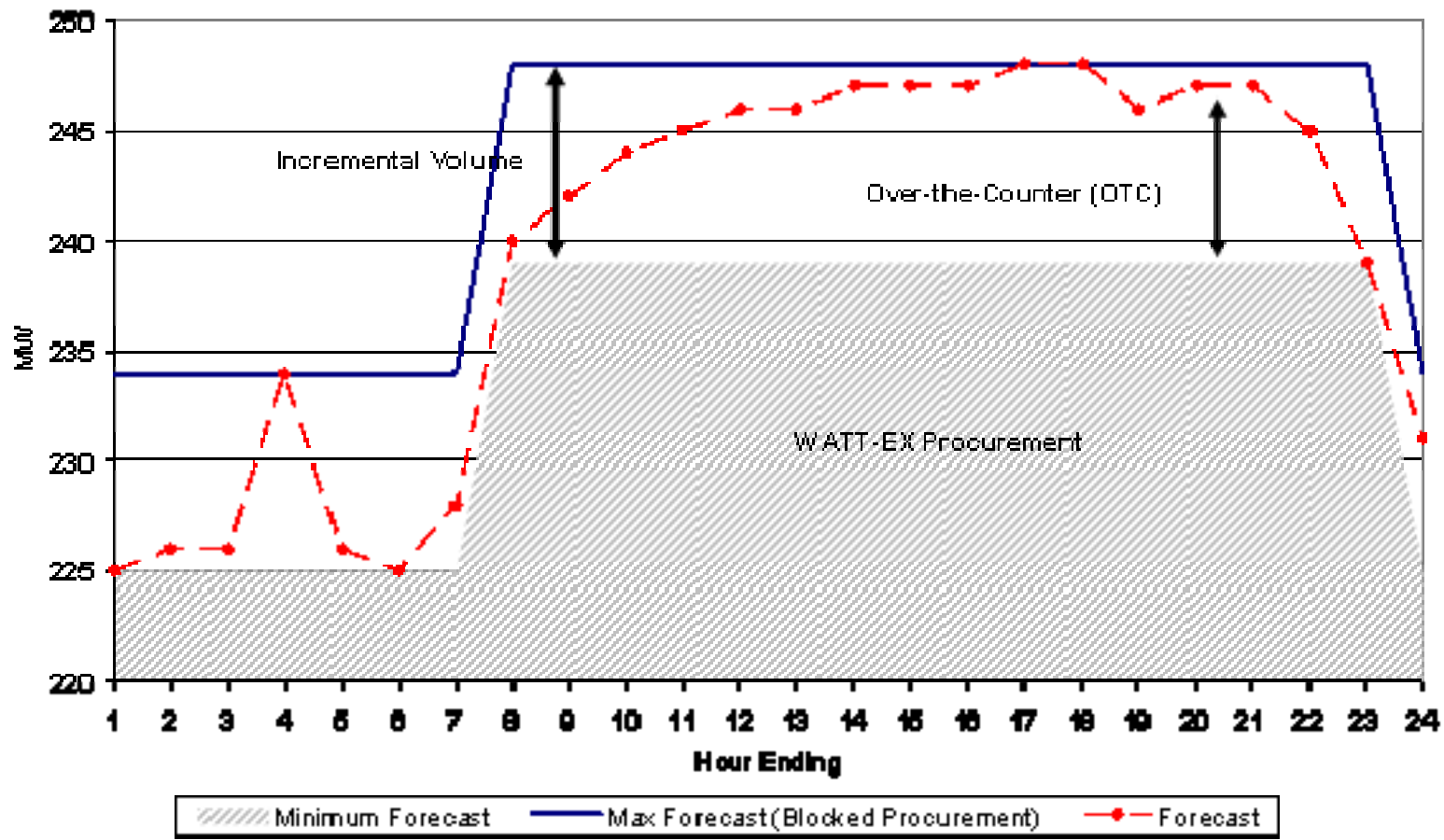
Proposed Phase Two Changes – Block Procurement



- Purchase all contingency Reserve Requirements in on/off peak blocks on Watt-Ex
 - Change from Recommendation Paper that would have created hourly product for shaping needs
 - Analysis suggested that day-ahead uncertainty and added complexity do not justify hourly shaping
 - The ability to forecast day-ahead contingency needs impacted by:
 - Load forecast
 - Wind levels (5% contingency requirement vs 7% requirement)
 - Intertie schedules (source BA carries the reserves)

Block Procurement

Incremental volume added with block procurement



Other Changes – Super Peak Regulating Product



- Regulating Reserve requirement has more ‘shape’
- Block procurement on/off peak would not be efficient
- AESO proposes to create a ‘Super Peak’ product to allow elimination of the OTC market
 - Definition of super peak would change from month to month to reflect load shapes
 - Requires changes to Watt Ex and contract

Other Changes – Change Off Peak Definition



- Current Off Peak runs from 12:00 am to 7:00 am and from 11:00 pm to 12:00 am for a single contract
 - A 'split shift' in effect
- Proposal is to examine the pros and cons of moving the off peak product to 11:00 pm (D-1) to 7:00 am for 8 continuous hours
 - Allows units to commit to a single contiguous block
 - Would have impacts on existing contracts, systems, etc.
- Is there a net benefit? Comments.