

AESO Recommendation Paper - Operating Reserve Market
Redesign
Stakeholder Comment Matrix

Stakeholder: EPCOR
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Section	Subsection	Stakeholder Response
3.1 Market Framework	3.1.1 Create a single trading platform to concentrate liquidity and establish more meaningful OR price indices	EPCOR supports the AESO efforts to establish more meaningful OR price indices. However, in the event the AESO is not able to procure sufficient supply to meet their needs on the exchange, EPCOR would like more clarity regarding the specific actions that will be taken by the AESO to obtain the required volume. EPCOR believes that the AESO should accelerate its plans to review the market suspension rule in case this design does not have the anticipated outcome of adequate supply.
	3.1.2 Minimize AESO influence - submit bid volume requirements in auction format	EPCOR agrees that the AESO should not have undue influence over market prices or outcomes and supports the AESO recommendation to post only un-priced volumes.
	3.1.3 Minimize AESO influence - D-1 auctions	EPCOR agrees that the AESO should not have undue influence over market prices and outcomes and recognizes that there are efficiency gains to be had from increased concentration of supply in a single trading period. EPCOR continues to have a concern that the D-1 market design may not produce sufficient supply to meet the AESO needs. EPCOR believes that the AESO should accelerate its plans to review the market suspension rule in case

		this design does not have the anticipated outcome of adequate supply.
3.2 Market Products and Pricing	3.2.1 Add to the suite of D-1 OR products	EPCOR supports a full range of D-1 OR products. Any additional products which will ensure that the AESO has adequate supply are encouraged.
	3.2.2 Continue to use On/Off peak products instead of hourly products	EPCOR agrees with the AESO recommendation to continue to use on and off peak products for the reasons listed in the recommendation paper. In addition EPCOR believes that the introduction of hourly products could have a negative impact on the reliable operation of the electric grid because of the possibility of hourly changes to the units providing reserves.
	3.2.3 OR indexed to pool price, marginal pricing for homogenous products and pay as offered for non-homogenous products	<p>EPCOR supports the current pricing mechanisms for OR as they allow market participants to structure their offers such that they are indifferent between selling energy and operating reserves, resulting in a more efficient allocation of resources.</p> <p>EPCOR is of the view that marginal pricing is a more efficient pricing mechanism than pay-as-offered for homogeneous products as market participants do not have the incentive to shadow bid the marginal offer. The use of a marginal clearing price for homogenous products reduces participation costs and has the potential to increase liquidity resulting in increased competition. Pay-as-offered also has the potential to disrupt the efficient dispatch of resources in the event a more efficient unit inadvertently prices himself out of merit in attempt to shadow bid the marginal unit.</p> <p>Although EPCOR supports the use of a marginal clearing price for homogenous products EPCOR understands that the pricing of non-homogenous products is more complex and may not be directly comparable as is the case with homogenous products.</p>

	<p>3.2.3 Activation Price Set to Clearing Price for base load Active Reserves</p>	<p>EPCOR believes that the pricing mechanism in the OR market should provide greater compensation for Active reserves than for Standby reserves as Active reserves should be considered a superior product.</p> <p>The current pricing mechanism, which requires the seller to specify both a premium and an activation price, prevents the efficient optimization of offers. As EPCOR supports the AESO efforts to remove themselves from the role of actively procuring OR, we recognize the need to simplify the current pricing methodology for Standby reserves by fixing one of the two parameters in order to prevent undue AESO influence.</p> <p>EPCOR encourages the AESO to carefully consider the incentives that are created by setting the activation price equal to the market clearing price for base load Active reserves. Although generally supportive of the AESO proposal, EPCOR urges the AESO to consider the potential outcomes that could arise given these proposed changes and the impact of varying activation rates.</p>
	<p>3.2.4 OR market price cap equal to energy market price cap</p>	<p>EPCOR disagrees with the AESO recommendation to set the price cap in the OR market equal to the price cap in the energy market. It seems inappropriate that the AESO recommend that sellers be permitted to offer OR at a positive index to pool price (recognizing the revenues required from providing OR may in some circumstances be justifiably greater than revenues from producing energy) at every instance other than at the energy price cap. Active reserves should be considered a superior product to</p>

		<p>energy due to the value placed on the provision of a reliable system and on preventing the loss of load. If OR are capped at the energy price cap the AESO is inadvertently incenting participants to allocate their resources away from the OR market during times of scarcity in which they should be valued most. Although the AESO may feel it is necessary to cap the price of OR, EPCOR is of the view that the price cap for OR should be greater than the price cap for energy in order to accurately reflect the additional value of OR, particularly in times of scarcity.</p> <p>EPCOR would like further clarification as to what is meant when the AESO states ‘As an added incentive, the AESO also recommends that an OR provider be paid pool price any time they generate MWs while providing...’ It is EPCORs understanding that this is already in place and thus what the AESO is proposing is not an added incentive.</p>
<p>3.3 Procurement Process and Timing</p>	<p>3.3.1 Apply selling logic for profile and non-standard offers</p>	<p>EPCOR understands that the AESO currently uses this methodology when procuring non-standard products and supports the AESO recommendation to maintain the current logic but to improve the process through automation. However, if the proposed selection logic is somehow different from the method currently in place EPCOR seeks clarification regarding any changes.</p>
	<p>3.3.2 A reasonable procurement schedule</p>	<p>EPCOR believes that this procurement schedule is appropriate in terms of its order but feels that the amount of time between the close of a market and open of the next is excessive. EPCOR suggests that 10 minutes would be sufficient (as opposed to 20). Any OR redesign should be superior in efficiency and automation to the current system and thus EPCOR sees no reason why the time frame should increase from the 10 minutes currently allotted. EPCOR argues that increasing the time commitment required for participation in the OR market effectively increases participation</p>

		costs which could negatively impact liquidity.
	3.3.3 Fix market closes and create price discovery	EPCOR supports the use of a fixed market close in the interest of facilitating a market that has low participation costs
3.4 Market Participation and Obligations	3.4.1 No must offer requirement	EPCOR agrees with the AESO recommendation to avoid implementing a must offer requirement
	3.4.2 Remove virtual units	EPCOR agrees with the AESO recommendation to preclude the use of virtual units
	3.4.3 Standing offers facilitated by blind offers	EPCOR supports the use of blind offers to facilitate standing offers in the interest of designing a market that has low participation costs but would advocate for a time threshold of standing offers (7 days) similar to what is observed in the energy market. This ensures that participants are still relatively active and are less likely to be subject to inattentiveness which could lead to non-compliance and, in-turn a lack of reserve adequacy and/or conscription.
	3.4.4 5MW minimum blocks	<p>EPCOR does not agree with the AESO recommendation to limit offers to a minimum of 5 MW blocks, rather EPCOR agrees that no unit should be able to provide less than 5 MW. EPCOR recommends that offer blocks be allowed to be less than 5 MW as long as the summation of a units offer blocks equals 5 MW or greater. By this way, a participant would be able to offer several small blocks that in aggregate would still exceed the 5 MW limit per unit.</p> <p>EPCOR agrees with the rounding methodology whereby once a OR market closes, all assets that have three or four MWs will be rounded up to 5 MW while all assets for one or two MWs will be cancelled.</p>

		EPCOR recommends that to assist in facilitating the above as well as in facilitating efficiency and low participation costs that all transactions for like product on a specific unit be amalgamated into one single transaction via the NGX system.
	3.4.5 No limitations around price/quantity pairs	EPCOR agrees with the AESO recommendation to not limit the number of price quantity pairs a seller can submit. EPCOR's recommendation of transaction amalgamation per unit per product will facilitate this in an efficient manner.
	3.4.6 Allow for flexible and inflexible offers in most cases	EPCOR agrees with the AESO recommendation for flexible offers with the exception of profile and shaped products.
	3.4.7 Inter-ties participation unaffected	
	3.4.8 Dealing with conflicting ancillary service obligations	EPCOR agrees with the AESO recommendation that if a TMR provider intentionally engages in a practice by which they make more than one commitment for the same MW there should be consequences to that supplier for non-delivery. Subject to our comments in section 3.9, the contract terms relative to non-compliance and force majeure should be changed in the NGX and OTC contracts so as to prevent 'price-majeuring'
3.5 Dispatching and Technical Terms	3.5.1 All active OR providers dispatched. Standby providers dispatched as needed	
	3.5.2 Technical Standards process unchanged	
	3.5.3 Testing	EPCOR is concerned about the lack of clarity in the recommendation paper regarding the duplication of testing obligations in the OTC contract and in the AESO rules. If the OTC agreement will not be used to transact OR volumes regularly testing obligations should be included exclusively in the NGX contract.

		EPCOR is of the view that market participants should have an opportunity to review any recommended updates to testing obligations prior to their inclusion in either the NGX agreement or in the AESO rules.
3.6 Multiple Buyers	3.6.1 Facilitate Self Supply by financial arrangements	<p>EPCOR agrees that further detail and granularity would be useful with respect to charges in the DTS rate to more appropriately reflect the costs incurred by market participants.</p> <p>EPCOR, however, is interested in the prospects of loads being able to opt-out of the OR market and physically self supply as is done in other deregulated power markets. This would enable loads to purchase their 'share' of some or all of their reserve products directly from a physical provider rather than via the AESO OR market while leaving dispatch control with the AESO. To this end, EPCOR is concerned that little attention has been paid to the multiple buyer and seller design, by allowing self procurement of OR, as recommended by the Department of Energy Market Policy Framework (Policy) published in June 2005.</p>
	3.6.2 AESO facilitate third party asset substitution	EPCOR is concerned about the difficulty of implementing an IT system with this functionality and is uncertain that there is enough interest and subsequent benefit to make it cost effective. EPCOR seeks clarification as to whether the implementation of the Phase I initiative could potentially be delayed due to the implementation of such a financial market.
3.7 Out of Market Actions	3.7.1 Exhaust market solutions prior to conscripting OR providers	EPCOR agrees that the AESO should exhaust all market solutions prior to conscripting OR providers and EPCOR seeks clarification regarding the specific procedures the AESO will follow when determining that all market solutions have been exhausted prior to the implementation of Phase I.

	3.7.2 Process required for conscripting OR providers	EPCOR agrees that, in the event conscription is necessary, the process used to select resources should not be biased. EPCOR seeks further clarification regarding the specific procedures and processes that will be put in place in the event that conscription is deemed necessary. EPCOR recommends that the AESO consult on this process prior to Phase I implementation.
	3.7.3 Consult on market suspension process and rule	EPCOR firmly believes that the AESO should consult on Rule 6.9 and make any necessary changes prior to the implementation of Phase I.
3.8 Compliance and Market Integrity	3.8.1 Remove perverse incentives, provide clarity around acceptable/unacceptable behaviour and potential consequences	EPCOR agrees strongly that perverse incentives must be eliminated and greater clarity needs to be provided around acceptable/unacceptable behavior and potential consequences.
	3.8.2 Continue to use force majeure definition in NGX Agreement	EPCOR agrees that the definition of Force Majeure in the NGX and OTC contract should be consistent. EPCOR prefers the definition that is currently in the OTC agreement as it provides special consideration for PPA units. EPCOR has stated numerous times our belief that it is necessary that rules be directed at the party who has the ability to control physical compliance. The OTC contract recognizes that there are circumstances in which action or inaction taken by the PPA Owner are out of the control of the PPA Buyer and for that reason the PPA Buyer is able to declare Force Majeure.
	3.8.3 Improve transparency of OR providers	EPCOR is concerned with the AESO proposal to improve transparency of OR providers. EPCOR is concerned that due to the relatively small size of the OR market that by providing real time visibility of OR providers the AESO will inadvertently be disclosing market participant's proprietary information and offer strategies to other market participants. EPCOR recommends that if it is deemed necessary to publish this

		<p>information, it should be published 60 days after the settlement date.</p>
<p>3.9 OR Market in ISO Rules and Contractual Items</p>	<p>3.9.1 Documentation of OR Rules</p>	<p>EPCOR is concerned about the lack of clarity in the recommendation paper regarding the duplication of OR rules in the OTC or NGX contracts and in the AESO rules. EPCOR believes that OR participants should be held accountable to either one or the other but not both as this has the potential to make participation in the OR market too burdensome.</p> <p>EPCOR continues to prefer the use of a bilateral contracting mechanism for the delivery of OR products. EPCOR believes that the outcome of non-compliance should be a strong driver for the AESO decision on whether to exercise its authority through rules, contracts, tariffs or some other legal mechanism. EPCOR is concerned that the AESO may have greater difficulty in procuring OR products through a rule-mechanism than through a bilateral contract. If a contract is used, the AESO retains discretion over its treatment of non-compliance; the current contract mechanism provides for liquidated damages for non-delivery. This is a preferable outcome to the current mechanism under the AUC Act, where instances of suspected non-compliance with a rule are required to be dealt with through a transfer of enforcement responsibility to the MSA, and thence to the AUC. EPCOR is also concerned about the use of an AESO rule to procure reserves as there is the potential of conflicts between two agencies with jurisdiction (MSA/AUC and the Alberta Securities Commission, which regulates NGX); as well as double jeopardy if the current liquidated provisions are retained along with the potential or prosecution by both the MSA and Securities Commission.</p> <p>In addition, EPCOR is of the view that the AESO is attempting to address two very different, although related, objectives in Phase I. The first objective deals with changes to the design of the OR</p>

		<p>market, while the second objective deals with compliance and subsequent enforcement with the new design. EPCOR recommends that the AESO consider splitting the implementation of Phase I into two parts, Part A and Part B, in order to deal with the two objectives separately. Changes to the OR market design could be implemented quickly and efficiently via changes to the NGX contract. Implementing these changes independent of consultation on the need for OR rules to be captured in AESO rules allows for market participants to realize the potential benefits of the OR redesign immediately while allowing more time for the necessary consultation on the need to capture OR rules in AESO rules.</p> <p>Consultation on the inclusion of OR market rules in AESO rules will be a much lengthier process and if not dealt with separately in Part B will likely delay the implementation of Phase I in its entirety.</p> <p>Furthermore, by implementing Part A prior to Part B more data will be available to assist in the evaluation of the potential changes to OR rules before they have been codified in AESO rules if the AESO determines that this is necessary. In the event that a flaw in the market design is realized it would be much easier to adapt the NGX contract than to make changes to AESO rules once they have been approved by the AUC.</p>
	<p>3.9.2 Amendments to the NGX and Over the Counter (OTC) Agreement</p>	<p>See our comments above.</p>
	<p>3.9.3 OTC Agreement</p>	<p>EPCOR sees the merit in maintaining the current OTC agreement and sees the potential need in case the AESO determines the need to conscript. However, EPCOR seeks clarification from the AESO regarding the use of the OTC contract. EPCOR believes that the terms of usage should be clearly defined and in place</p>

		prior to Phase I implementation.
4.0 Policy Coherence		
5.0 Consultation and Implementation Process	5.1 Implementation of Administrative Improvements to NGX	EPCOR is concerned about the costs required to implement certain proposed changes to the NGX platform and whether or not they would be cost effective – recognizing that they are necessary for the removal of AESO influence. EPCOR is further concerned with respect to any additional fees that NGX may levy in order to facilitate the AESO’s proposed OR design.
6.0 Post Implementation Process	6.1 Post implementation review	EPCOR believes that the AESO should define and consult on performance metrics prior to Phase I implementation. EPCOR requests that the AESO commit to carrying out a timely review of the overall success of Phase I using these predefined metrics.
	6.2 Phase II	EPCOR firmly believes that prior to implementation of any Phase II initiatives that Phase I is in place for a sufficient length of time to determine that it is in fact working as intended and that the AESO commits to carrying out a timely review of Phase I prior to initiating consultation on Phase II.