

Revised AESO Recommendation Paper - Operating Reserve Market Redesign

Response from: **Industrial Power Consumers Association of Alberta (IPCAA)**  
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The AESO has released a revised Operating Reserves Market Redesign Recommendation Paper in response to feedback received on the January 2009 Recommendation Paper. Given the changes made to the recommendations, the AESO is soliciting stakeholder feedback on the revisions by April 16<sup>th</sup>, 2010. The changes from the previous paper are highlighted in the matrix below.

Section	Subsection	Stakeholder Response
<p><b>3.2 Market Framework</b></p>	<p><b>3.2.1 Add to the Suite of D-1 OR Products</b></p> <p><b>Hourly products are the revised recommendation for both Active and Standby instead of a shaped product with selling logic.</b></p>	<ul style="list-style-type: none"> <li>• IPCAA continues to have serious concerns with respect to the potential cost of ancillary services under this redesign. Since the AESO is using only quantity, and not price and quantity, with no specific targets for base and on-peak volumes, there will be minimal consumer protection. To date, all of IPCAA's responses and recommendations on this OR redesign have been ignored. The only changes made to the redesign have been the result of recommendations made by OR sellers, not the eventual buyers.</li> <li>• According to the AESO "<i>Should a generator be conscripted to provide OR, Article 11.3 of the Terms and Conditions of the AESO tariff outlines compensation.</i>" This section implies that the conscripted OR provider will receive the highest possible price.</li> <li>• How will the AESO prevent sellers from increasing price severely and selling everything in hourly market? If there is to be no must-offer, must comply provision, how will the AESO prevent economic withholding when conscripted volumes receive the highest price possible?</li> <li>• Will there be a tolerance limit or target around how much</li> </ul>

		<p>volume the AESO procures in the hourly products, as opposed to the current products?</p> <ul style="list-style-type: none"> <li>• If hourly products are being procured, it should be possible to allow loads to self-supply OR. Given the progress made with the proposed changes to the AESO GTA to better align OR costs with hourly energy consumption, the AESO should enable self-procurement of OR as part of this redesign.</li> </ul>
	<p><b>3.2.3 Standby Baseload On and Off Peak</b></p> <p><b>Premium is set based on a clearing model rather than pay as bid. Premium establishes a merit order for activation.</b></p>	<ul style="list-style-type: none"> <li>• IPCAA recommends that the AESO reconsider the pay-as-bid model. This will put suppliers at risk to their offers.</li> <li>• <i>“An OR seller will be permitted to offer at a positive index to pool price...”</i> Why? Fuel is not even being used if the supplier is not called upon. What is the rationale for paying OR suppliers more than energy suppliers?</li> <li>• IPCAA believes that the only reason the OR price would be higher than the pool price would NOT be for economic reasons. This would be an example of price manipulation through withholding of supply in the OR market.</li> </ul>
<p><b>3.3 Procurement Process and Timing</b></p>	<p><b>3.3.2 A reasonable procurement schedule</b></p> <p><b>The trading schedule has been revised. The revised schedule has 10 minutes between closes for baseload markets and 20 minutes between closes for hourly markets.</b></p>	<ul style="list-style-type: none"> <li>• <i>“Adding random closes to the trading schedule will add unnecessary complexity.”</i> IPCAA does not agree with this statement. Random closes ensure more competitive marketplaces. If the AESO is going to remove multi-day procurements, and remove active bidding from the OR market, it must allow for some competitive mechanisms to ensure loads are not paying too much money for OR. Random closes are not too complex for traders to understand or accept. They have been used successfully in other marketplaces, such as for RRO products, and should be used here as well. The objective of the redesign should be to achieve a competitive pricing mechanism, not to overly simplify activity to appease traders.</li> <li>• How does the AESO plan to monitor the single auction results to ensure they competitive and reasonable?</li> </ul>

		<ul style="list-style-type: none"> <li>• What role does the AESO anticipate the MSA playing in monitoring OR market behaviour in real-time?</li> </ul>
<b>3.4 Market Framework</b>	<p><b>3.4.4 5 MW minimum blocks</b></p> <p>The AESO will consider assets less than 5 MW for participation in the Supplemental market. Aggregators will also be considered. The ISO Rules consultation will further develop these concepts and standards.</p>	<ul style="list-style-type: none"> <li>• The AESO should allow assets less than 5 MW to provide Supplemental reserves and should encourage aggregators to participate in the market.</li> <li>• Allowing aggregators to participate will increase the available supply of OR products from loads that do not have adequate volumes nor resources to participate in the current market.</li> </ul>
<b>3.6 Multiple Buyers</b>	<p><b>3.6.2 AESO facilitate third party asset substitution</b></p> <p>There are issues concerning confidentiality of sellers that must be resolved prior to enabling third party asset substitution. The AESO is committed to finding a practical solution for third party asset substitution and will continue to pursue this issue.</p>	<ul style="list-style-type: none"> <li>• The AESO should focus on enabling self-supply as part of this redesign. This should be physical volume self-supply whereby volumes are netted against an obligation. This should not be a price swap. Price swaps will not work because the price paid by consumers in a lot of instances is not the prevailing energy price. For example, all RRO consumers pay a regulated price set a month in advance.</li> <li>• Facilitating third party asset substitution would allow for greater competition and therefore lower prices. The AESO should enable procedures for a generator to determine which unit to provide OR from once volumes have been committed to.</li> </ul>
<b>5.0 Consultation and Implementation Process</b>	<p><b>5.0 Phased Implementation</b></p> <p>Following the comment period, the AESO plans to initiate changes to the OR market design in a phased manner. It is expected this will facilitate a smoother transition to the revised market design.</p>	<ul style="list-style-type: none"> <li>• The AESO's plan to conduct a post implementation review within 1 year of the final and complete redesign being in place is insufficient. This review should be ongoing and initiated in parallel with OR market redesign implementation.</li> <li>• The MSA and ratepayers should be involved in the review process on an on-going basis. The review should include metrics for evaluating pricing impact. The pricing review should be in a form similar to the MSA review for the impact of implementing Quick Hits. Implementation should only go ahead if the AESO is willing to undergo a review in parallel</li> </ul>

		<p>with implementation.</p> <ul style="list-style-type: none"> <li>• If the result is higher prices without any benefits, the AESO should move forward with an alternative solution as an “off-ramp”.</li> <li>• If the redesign results in large price increase to loads, without any additional benefits, the AESO needs to consider the key problems with the redesign.</li> </ul>
	<p><b>5.1 Changes to Current Practices</b></p> <p><b>The first step in the OR Redesign is to move all procurement to D-1 within the current market design. In addition, the AESO will begin improving the transparency of the OTC market by providing pricing information after the close of the OTC market.</b></p>	<ul style="list-style-type: none"> <li>• Pricing information should be made as transparent as possible.</li> <li>• There needs to be a cost-benefit assessment and an indication of the probable impact on pricing. These need to be conducted in advance of implementation.</li> <li>• The AESO should involve the MSA to evaluate the pricing impact and to assess alternatives in the event that this redesign is implemented and prices do rise.</li> <li>• The current OR market ranges from \$150 to \$250 million per year depending on energy prices. The proposed design eliminates a number of checks and balances in the existing mechanism with no substitutes to ensure competitive and reasonable pricing. A 10% increase in OR costs due to the redesign will cost Ratepayers an added \$20 million per year. This is an unfair exchange in order to provide some added simplicity for traders.</li> </ul>