

Phase Two OR Market Redesign August 2 Changes

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Agenda



- August 2nd Changes
- Standby Market
- Active Market
 - Contingency Reserves
 - Regulating Reserves
 - OTC Market (Regulating Reserves Only)
- Trading Schedule
- Next Steps - Q4 Changes

Overview of Changes



- Standby market will be cleared using public formula
 - Creates a 'blended' price
 - AESO will clear the standby markets sequentially
- Active Market – Contingency reserves
 - AESO will use 'block' procurement strategy
 - All contingency reserves will be purchased on Watt-Ex
 - OTC market for contingency reserves will be eliminated
- Active Market – Regulating Reserves
 - Watt-Ex procurement unchanged
 - OTC market will trade block 'Super Peak' hours rather than current hourly volumes

Standby Market Changes



- 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
- Market will close to new offers at specific times
 - Offers must remain in place after market close while the AESO clears offers
 - New offers or changed offers will not be taken
 - The MSA will monitor the market for behaviour inconsistent with these guidelines
- AESO will clear the market by defined formula

Proposed Phase Two Changes – Benefits



- The market will be transparent and consistent
 - Offers selected based on public criteria
 - Ensures lowest priced offer wins the auction
 - Eliminates the need for the AESO to gauge prices when submitting a bid
 - Solicits an offer curve from the market to improve price discovery
- Markets will be cleared sequentially

Standby Clearing – Activation ‘Rates’



	Regulating	Spinning	Supplemental
On Peak	1%	10%	10%
Off Peak	3%	10%	10%

- The Activation Rates will be used to calculate a blended price
- Blended Price = Premium + Activation % * Activation Price
- Activation rates will be adjusted periodically based on experience
- Public notice will be given prior to a change in the activation rate
- Standby offers will be sorted based first on blended price and second on time received (first in, first selected)

Standby Regulating Example (On peak)



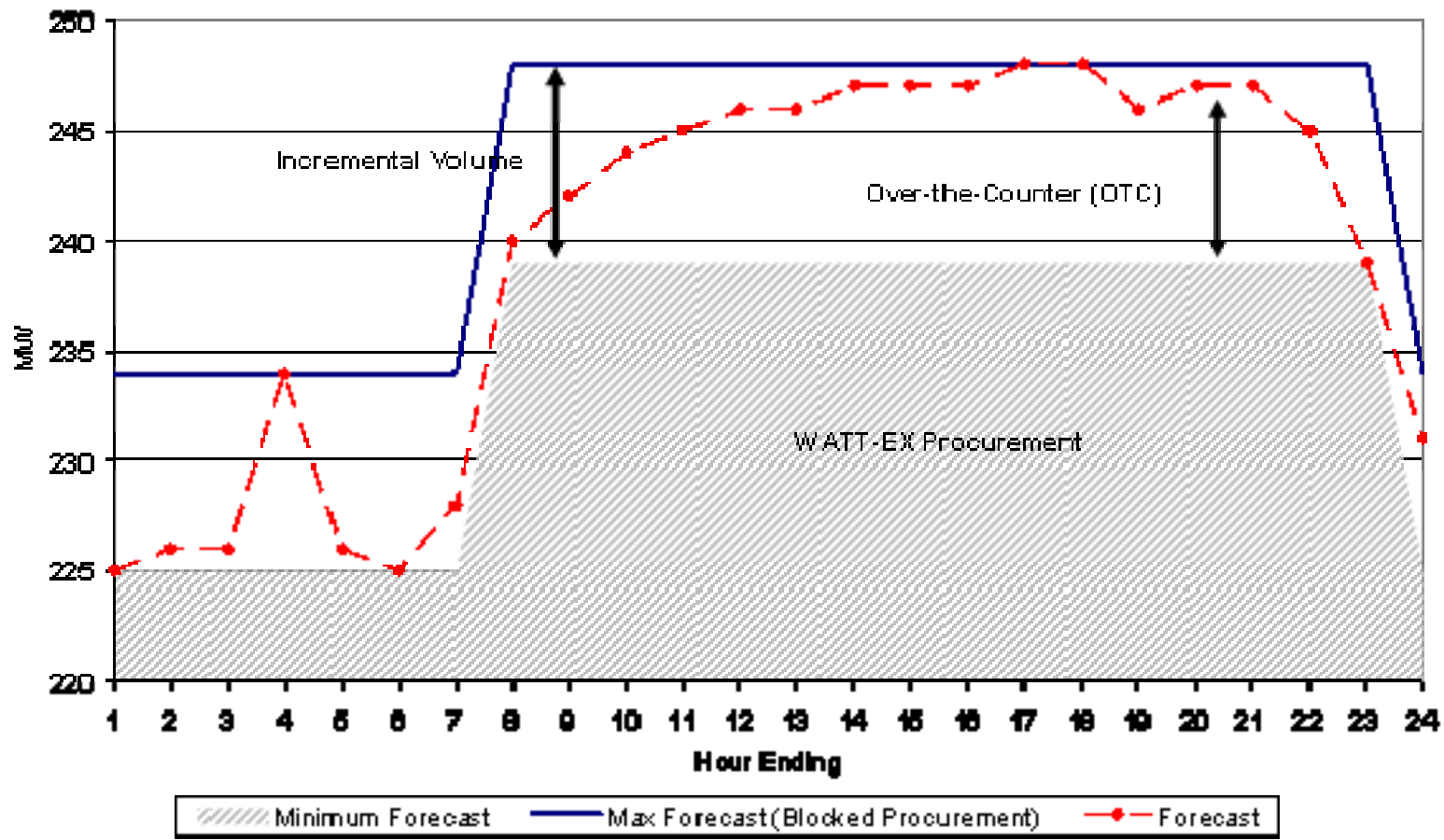
O. Activation	O. Premium	Volume	Aggregate	Order ID
450.00	4.00	50	50	127
425.00	4.00	20	70	129
425.00	4.00	25	95	86
400.00	4.00	30	125	81
425.00	4.00	25	150	139
250.00	5.00	25	175	131

- 1. Blended price = $\$4.00 + 1\% * 450 = \8.50 2. Blended price = $\$8.25$
- 3. Blended price = $\$8.25$ 4. Blended price = $\$8.00$ 5. Blended price = $\$8.25$
- 6. Blended price = $\$7.50$
- If the AESO bid was 100 MW at $\$0, \0 orders 131, 81 and 15 MW of 86 would be selected.
- If Blended prices are equal the earlier order (lower Order ID) is selected

- Block procurement will be used for contingency reserves (Spinning and Supplemental)
- OTC market eliminated for contingency reserves
- Regulating reserve market unchanged for Watt-Ex
- OTC market will trade Super Peak products for regulating
 - Flat blocks rather than an hourly profile
 - AESO will provide a revised OTC template
 - Participants can use the current template but it would be completed differently

Block Procurement

Incremental volume added with block procurement



Super Peak Regulating Product



- Total Volume requirement unchanged
- Block procurement on/off peak would not be efficient
- AESO developing two super peak products
 - Morning Super Peak is HE 6 to HE 8
 - Evening Super Peak is HE 17 to HE 24 November to January
 - Evening Super Peak is HE 18 to HE 24 rest of year
- Implement via OTC August 2
 - Software upgrade scheduled for October to trade new instruments on WattEx
- OTC market discontinued in October

Trading Schedule (Aug 2)



- 9.00 All markets open
- 9.10 Close Standby Regulating Reserve
- 9.20 Close Standby Spinning
- 9.30 Close Standby Supplemental
- 9.40 Close Active Regulating
- 9.50 Close Active Spinning
- 10.00 Close Active Supplemental
- In Q4 Active Markets will be close prior to standby markets as part of the next set of changes

Next Steps



- Q4 (October Target)
 - Super peak products for regulating reserve traded on Watt Ex
 - Standby lockdown and automatic clearing implemented on Watt Ex
- 2012
 - Identify next set of changes to move forward with based on elements in the Recommendation Paper
 - Blind auction, ability to make standing offers?
 - True clearing price – remove AESO bid?
 - Others?