



# **Alberta's Electricity Policy Framework – Wholesale Market Impact**

Kent McDuffie, vice-president, Market Services

AESO Stakeholder Meeting

June 21, 2005

# Introduction

- Over the past year and a half the DOE has undertaken a review of Alberta's competitive market framework
- On June 6<sup>th</sup>, the DOE released the Policy Framework paper documenting their recommendations
- With respect to the wholesale market, the Policy specifically addresses:
  - Short Term Adequacy (STA) and Other Related Market Issues
  - Long Term Adequacy (LTA)



# Timelines

- The Policy Framework specifies that an implementation timetable will be developed by the AESO and the DOE by August 31<sup>st</sup>, 2005
- We have been working to assess the recommendations both independently, and with a subset of key stakeholders through the STA Working Group
- In parallel with the August 31<sup>st</sup> date, we are pursuing some “Quick Hits” to be implemented as soon as practicable
- Immediate focus is on STA initiatives and on developing a comprehensive implementation plan of the Policy recommendations



# STA - What are the issues?

- The AESO does not currently have adequate information from Day Ahead schedules to ensure that sufficient capacity will be available to meet demand. (“Offer Shortfall”)
- Creates a timing problem for the system operator
- The AESO has access to longer lead time units that can be made available
- However the AESO does not currently have adequate visibility of the supply stack with enough lead time to call on these units



**aeso**

ALBERTA  
ELECTRIC  
SYSTEM  
OPERATOR

## STA - What are the issues (cont.) ?

- There are times of significant price signal volatility / instability in the current design
- This leads to a lack of credibility / fidelity of the price signal
- Makes it difficult for buyers / sellers to rely on the price signal



**aeso**

ALBERTA  
ELECTRIC  
SYSTEM  
OPERATOR

## LTA - What are the issues?

- Alberta's competitive generation market has attracted over 3500 MW of new capacity since 1998
- The near term outlook is that Alberta has sufficient supply for the next several years
- Many generation developers have provided "soft" assurances that they will build additional generation as needed
- However, the DOE is concerned about the lack of current firm commitments to build new generation facilities



# Recommendations

- The Policy Framework makes specific recommendations to address the STA and LTA issues
- The recommendations can be categorized as either “Implementation” or “Additional Study / Consultation” recommendations



**aeso**

ALBERTA  
ELECTRIC  
SYSTEM  
OPERATOR

# STA - Implement “Merit Order Stabilizers”

- Supply “must offer” requirements
- Generators “must comply” with dispatch instructions
- Restatement restrictions (T-2)
- Payment for marginal generators
- Treatment of imports in the same manner as intra-Alberta generators (Imports Setting Price)
- Communication to the AESO of unit physical characteristics
- Communication to the AESO of intention to start generation



# STA - Other “Implementation” Recommendations

- Treatment of TMR to resolve its impact on Pool Prices (Transmission Regulation Issue)
- Unit commitment for short term supply adequacy (AESO IT systems issues)
- Communication by loads above a specific level of their curtailment strategy
- Outage coordination to continue to be managed by stakeholders unless a specific threshold is exceeded



# STA - "Additional Study / Consultation" Recommendations

- Self procurement of Operating Reserves
- Development of additional demand response products
- Possible alignment of dispatch and settlement periods
- Rules to address the impact of intermittent resources



# LTA Recommendations

- Initially the DOE contemplated solutions involving either Reliability Contracts or Capacity Contracts to foster investment in new generation
- After extensive stakeholder consultation the DOE has concluded that these arrangements are not required at this time
- Instead a series of metrics and an associated monitoring system will be developed by the AESO to monitor capacity adequacy in the province



## LTA Recommendations (cont.)

- Develop appropriate Metrics and reporting mechanism
- Establish a Load Curtailment Priority Plan
- Evaluate the merits of additional intertie capacity with neighbouring jurisdictions
- Potential for the AESO to have responsibility for “adequacy contracts” to incent new supply



**aeso**

ALBERTA  
ELECTRIC  
SYSTEM  
OPERATOR

## Near Term Focus

- Detailed implementation timetable developed by August 31<sup>st</sup>, 2005
- “Quick Hits” implemented as soon as practicable
- Immediate focus is on the STA initiatives:
  - Merit Order Stabilizers
  - Imports Setting Pool Price
  - TMR Impact on Pool Price
- Developing a comprehensive implementation plan with stakeholders



# In Summary

- Alberta's competitive wholesale market framework has been successful to date
- There has been significant new investment in the industry and a broad range of new players transacting in the marketplace
- There are some issues primarily related to STA, LTA
- Consensus view is that these can be addressed through refinements to the existing market framework as opposed to replacing the existing framework



**aeso**

ALBERTA  
ELECTRIC  
SYSTEM  
OPERATOR

