

Operating Reserves Market Redesign – Stakeholder Meeting

February 4, 2009

Reliable **Power**

Reliable **Markets**

Reliable **People**



Agenda

- Consultation process to date
- AESO Recommendation Paper
- Next steps



Consultation Process to Date



- AESO commences consultation process - October 2007
- AESO issues concepts paper, Stakeholders respond and AESO comments – November and December 2007
- OR working group – January to July 2008
- AESO concept paper (summary) and Stakeholders respond – July and August 2008
- AESO Recommendation Paper – January 2009
- Stakeholders respond – February 2009

Consultation Process



Currently here in the process

AESO Recommendation

- AESO issued Recommendation Paper – January 2009
- Over 35 items included in paper
- Structure for today:
 - open dialogue and
 - hear from stakeholders



The AESO recommends:

- concentrating the procurement of OR on a single platform, NGX
- removing AESO discretion and influence from the process
- procurement take place day ahead of real time dispatch (D-1)
- OTC transactions will no longer be required and changes to NGX will be necessary

Markets Products and Pricing



- To use NGX exclusively, new NGX products are required
- AESO will cease submitting bids and the pricing mechanism for OR products will need to change accordingly
- Clearing price mechanism for OR products that are homogenous and pay as offered for non-homogenous products
- Indexing OR products to pool price whenever possible
- Continuing to procure OR using on and off peak instruments
- A replacement to the AESO submitting bids, an OR price cap - the same as the energy market price cap

Procurement Process and Timing



- Utilizing transparent and logical criteria for prioritizing offers when an OR product has a different volume requirement in each hour
- Efficient and manageable procurement schedule
- OR price discovery will take place throughout the procurement process providing necessary pricing information to participants

- The dispatching of OR providers will remain unchanged
- AESO Operating Policies and Procedures (OPPs) will continue to outline the AESO's OR requirements and forecasting methodologies
- Feedback required on obligations for testing OR or potential OR facilities

Market Participation and Obligations

- Utilizing transparent and logical criteria for prioritizing offers when an OR product has a different volume requirement in each hour
- Efficient and manageable procurement schedule
- OR price discovery will take place throughout the procurement process providing necessary pricing information to participants

Multiple Buyers

- AESO will be consulting on the tariff design. OR costs are primarily recovered through a single-parameter charge. Add parameters to the charge such that it more closely reflects OR costs as they are incurred, which would improve the price signal to load
- AESO will be consulting on the deferral account riders and reconciliation process, including options to minimize their variability. OR costs are subject to retrospective deferral account reconciliation. Consider changes that will better encourage and facilitate financial arrangements for OR products
- AESO is reviewing the IT capability of third party asset substitution

Out of Market Actions

- OR market design is expected to operate in a manner that is fair, efficient and openly competitive (FEOC)
- Consideration has been given to out of market actions
- May be necessary after the AESO has exhausted in-market solutions
- An equitable process is required for using generators during any out of market action

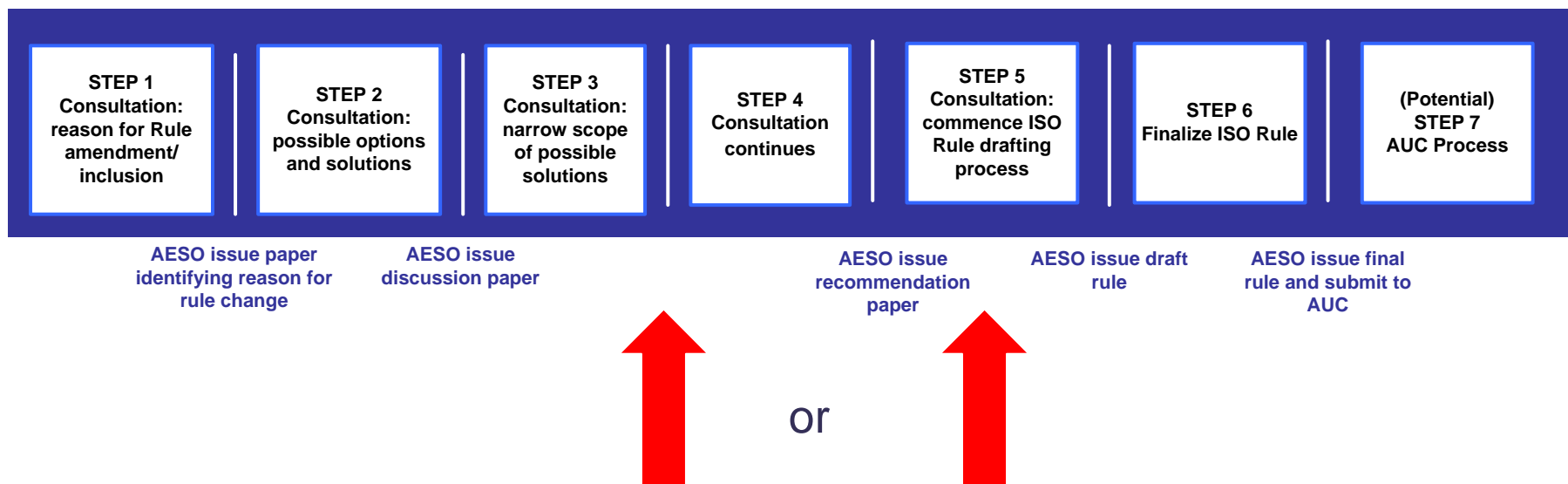
- Remove any perverse incentives
- Establish a compliance mechanism that is appropriate for the OR market while similar in structure to the energy market
- Improve overall transparency of the OR market



OR Market in ISO Rules and Contractual Items

- Consistent with paragraph 20(1)(d) of the Act, the AESO recommends that ISO Rules more comprehensively include OR rules
- NGX and OTC Agreement will need to be amended to be consistent with OR Market Rules
- To the extent the OR market does not function as intended due to events such as IT failures, the AESO recommends using the OTC Agreement if necessary

Next Steps



- Stakeholders submit comments matrix by February 20, 2009
- AESO respond to comments in writing and decide whether further consultation is necessary

- Commence ISO Rules consultation – Q2 2009 (tentative)
- File ISO Rules with AUC – second half of 2009 (tentative)
- AESO and NGX IT changes commence
- Implement redesigned OR market by end of 2009 (or shortly thereafter!)

- Post implementation review
- Consider Phase II – longer term
- File ISO Rules with AUC – second half of 2009 (tentative)
- AESO and NGX IT changes commence
- Implement redesigned OR market by end of 2009 (or shortly thereafter!)

Thank you

- Consultation has been effective
 - Commitment
 - Involvement
 - Patience
 - Receptive

- ...and will continue

