



Ancillary Services Procurement Process

VERSION 1

June 17, 2005

Outline

In an attempt to procure ancillary services in a more fair, efficient and openly competitive manner, the AESO has laid out the following procurement process. This process is intended for ancillary services, excluding operating reserves. The process for procuring operating reserves is already established and working effectively.

As part of the transmission planning and operations planning process, AS requirements are to be identified in advance when possible. The AESO intends to identify the need sufficiently in advance so that it has time to conduct an Expression of Interest "EOI" for a range of potential solutions. Statutory pricing limits and/or principles are to be outlined in the EOI. If the EOI attracts sufficient interest and the AESO deems the AS is likely to be contestable¹, a Request for Proposal "RFP" will be conducted in an attempt to procure the ancillary services competitively.

In the event the AESO conducts a RFP, it shall act as a Rational Buyer². The AESO shall not contract outside of statutory pricing limits and/or principles set out in the EOI/RFP. Acting as a Rational Buyer the AESO can elect to contract for some, all or none of the AS requirements via the RFP.

If the AESO deems an AS requirements to be non-contestable and/or AS requirements are not contacted for by way of a RFP the AESO will demonstrate why and communicate this to all stakeholders. At this time the AESO may commence bi-lateral negotiations. The AESO, acting as a Rational Buyer, will bi-laterally negotiate with Parties who responded to the EOI and/or the RFP. The AESO can negotiate and contract within statutory pricing limits and/or principles set out in the EOI/RFP. In the event contracts cannot be negotiated within two months, both parties enter binding arbitration (which is subject to statutory pricing limits and/or principles). In the event there is more than one party that the AESO cannot successfully bi-laterally negotiate with, separate binding arbitrations will be entered in to. Binding arbitration/s will conclude with the AS requirements being contracted for. Dispute Resolution terms and conditions as outlined in the AESO's Tariff will be applicable.

¹ Whether an AS is contestable or not shall be determined by the AESO with necessary input from the Market Surveillance Administrator. Examples of a contestable service are:

- The number of AS providers showing interest will at least be one more than the minimum requirement. i.e. if the AESO, for technical reasons, requires a minimum of three AS providers, four AS providers showing interest may suffice;
- The available quantity/amount of AS that can be competitively procured will be at least 1.5 times the requirement. i.e. if the AESO requires 100MW of load shedding service, an interest to competitively supply 150MW would suffice; and,
- Responses to a RFP are similar or consistent with other competitive benchmarks.

² Rational buyer means the AESO's primary objective is not lowest cost. The AESO will act in a rational manner, considering competitive benchmarks, AEUB decisions, statutory limits and/or principles and whether there was sufficient interest before making a decision.

Process Map

