

January 24, 2022

To: The Market Surveillance Administrator, market participants and other interested parties (“Stakeholders”)

Re: **Alberta Electric System Operator Responses to Capital Power – Proposed Amended Section 103.5 of the ISO Rules, *Net Settlement Instruction* (“Section 103.5”)**

In accordance with Alberta Utilities Commission (“Commission”) Rule 017, *Procedures and Process for Development of ISO Rules and Filing of ISO Rules with the Alberta Utilities Commission* the Alberta Electric System Operator (“AESO”) provided its responses to Stakeholder comments on December 21, 2021. On January 6, 2022, the AESO received additional comments Capital Power in response to the AESO’s proposed amendments to Section 103.5. In particular, Capital Power has requested additional information regarding how the AESO selected the notice period of 15 business days for the cancellation of net settlement instructions in subsection 4(1)(a)(ii) of Section 103.5.

AESO Responses to Capital Power

In response, the AESO wishes to provide the following further information regarding how the AESO arrived at a notice period of 15 business days for the cancellation of net settlement instructions. The AESO maintains that this notice period of 15 business days is reasonable in the circumstances.

The AESO requires that most forms of financial security have a notice period of at least 60 days. For example, if a market participant wishes to provide a letter of credit or a guarantee, the AESO generally requires that the financial institution or guarantor provide at least 60 days’ notice to the AESO if it wishes to cancel the letter of credit or guarantee. This has generally been sufficient time for the AESO to seek replacement security, exercise its rights and remedies, and to implement such rights and remedies, as appropriate.

Net settlement instructions can be considered like a form of financial security. The AESO considers net settlement instructions when it estimates the financial obligations of a market participant, which can reduce the amount of financial security that a market participant may be required to provide to the AESO. A notice period of at least 60 days to cancel a net settlement instruction would be consistent with its other practices regarding financial security; however, the AESO recognizes that net settlement instructions are a tool that the AESO allows market participants to use to facilitate their commercial transactions by simplifying financial settlement. The AESO is therefore prepared to allow for a notice period that is shorter than 60 days for net settlement instructions and has performed the following conservative estimate to arrive at the minimum amount of time that the AESO considers to be reasonable in the circumstances:

5 business days	Estimate of the time required for: (1) the AESO to estimate the financial obligations of a market participant, (2) the AESO to request additional financial security, and (3) the market participant to provide additional financial security (if required).
5 business days	Estimate of the time required for the AESO to exercise its rights and remedies under Section 103.7 of the ISO Rules, <i>Financial Default and Remedies</i> , which includes the right to suspend or terminate a market participant’s registration as a pool participant and any related transaction activity in the power pool. The AESO notes that this process can have

	additional complexity if the market participant is subject to proceedings under bankruptcy and insolvency legislation.
5 business days	Estimate of the time required for the AESO to implement its rights and remedies, which includes notifying load settlement agents, and for the load settlement agents to implement the necessary changes to their systems.
Total: 15 business days	

The AESO also notes that there is no requirement for market participants to use net settlement instructions and they can settle between themselves pursuant to their bilateral agreements. Net settlement instructions are essentially a tool of convenience that the AESO allows market participants to use. However, the AESO does not believe that this tool should be allowed to unreasonably increase the risk of default for the AESO, which risk is ultimately borne by all pool participants.

Related Materials

The following documents can be accessed on the [Stakeholder Engagement](#) page on the AESO website:

1. Capital Power January 6, 2022, Letter to the AESO.

If you have any questions, please submit them to rules_comments@ieso.ca.

Sincerely,

Jackie Gow

Legal Manager, ISO Rules and Alberta Reliability Standards
 Legal and Regulatory Affairs
rules_comments@ieso.ca