

June 23, 2021

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

**Re: Letter of Notice for the Draft Proposed Amended Section 103.3 of the ISO Rules, *Financial Security Requirements* (“Section 103.3”)**

Pursuant to Alberta Utilities 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”) is seeking feedback from the stakeholders on the draft proposed amended Section 103.3.

### Issue

In response to stakeholder feedback received over the last number of years and in support of the Government of Alberta’s Red Tape Reduction Initiative, the AESO has reviewed Section 103.3 to explore opportunities for reducing regulatory requirements and costs for stakeholders. The AESO has also reviewed Section 103.3 to explore opportunities to mitigate the risk of financial loss associated with market participant default and insolvency.

### Background

On March 24, 2021 the AESO posted a *Letter of Notice for Development of Proposed Amended Section 103.3 of the ISO rules, Financial Security Requirements* seeking feedback from stakeholders regarding Section 103.3 and the proposed amendments to Section 103.3, including:

1. the security requirements in general;
2. unsecured credit limits and thresholds; and
3. forms of security.

The requirements in Section 103.3 play an important role in mitigating the risk of financial loss and maintaining the integrity of the market. If a pool participant fails to pay their financial obligations, all pool participants bear that financial loss, which is recovered through a payment default charge allocated to all pool participants. In connection with any proposed amendment, stakeholders were asked to consider and comment on the impact that the proposed amendment would have on the risk of financial loss. The AESO also asked stakeholders to submit estimates of any cost and time savings that may occur from the amendments.

On April 15, 2021, the AESO received feedback from stakeholders regarding Section 103.3, which can be viewed on the AESO’s website. The AESO has considered the feedback and developed a draft proposed amended Section 103.3. The changes captured in this draft include the following:

#### **1. Increasing the unsecured credit limits and including the BBB- credit rating**

The higher unsecured credit limits, as shown below, and the BBB- credit rating will help reduce the costs to market participants associated with the financial security requirements. As these unsecured credit ratings are considered investment grade, the AESO believes this change will not result in any material risk to the market.

Credit Rating	Current Limit (\$ million)	Proposed limit (\$ million)
AA+ / AAA	20	50
AA	20	45
AA-	20	40
A+	15	35
A	15	30
A-	15	25
BBB+	10	20
BBB	10	15
BBB-	0	10
< BBB-	0	0

**2. Removing the process for assigning a proxy rating to non-rated entities**

Consistent with the Government of Alberta’s Red Tape Reduction initiative, the AESO is proposing to remove the process for assigning a proxy rating to non-rated entities. The process of assigning a proxy credit rating creates significant regulatory burden on the AESO. This process is also rarely used by market participants.

**3. Clarifying who can provide written guarantees to the AESO**

Historically, the AESO has only received written guarantees from a parent entity of a market participant. As a result, the AESO is proposing to amend Section 103.3 such that written guarantees can only be provided by a market participant’s parent entity that has a credit rating of BBB- or higher from an acceptable credit rating agency.

**4. Adding a minimum level of financial security**

To mitigate the potential risk arising from new market participants that underestimate or misrepresent their proposed level of energy consumption, the AESO is proposing to add a minimum level of financial security. The AESO would establish this minimum level from time to time in an information document posted to the AESO website.

**5. Clarifying the AESO’s rights to request additional financial information and to exercise other rights in the event a market participant is unable to pay its debts as they become due**

To mitigate the potential risk arising from market participant default and insolvency, the AESO is proposing to clarify its rights to request additional financial information to enable the AESO to understand and assess the financial risks of a market participant or its guarantor. This right would be exercised only when the AESO has a potential concern regarding the ability of a market participant to pay its debts as they become due.

The AESO is also proposing to clarify its rights following the occurrence of a material adverse change to a market participant to make it clear that the AESO may terminate or suspend the market participant if the AESO believes that the market participant is unable to pay its debts as they become due as set out in Section 103.7 of the ISO rules, *Financial Default and Remedies*. It also clarifies the AESO’s right to require a market participant to enter into a prepayment arrangement.

The AESO also considered feedback from a stakeholder which included various proposals for reducing and eliminating the amount of financial security that retailers are required to provide to the AESO. The AESO believes these proposals would result in a material increase in the risk of financial loss associated with market participant default and insolvency. As such, the AESO has not included these in the draft proposed amended Section 103.3.

### **Stakeholder Comments and AESO Responses**

Stakeholders may submit written comments to the AESO using the *Stakeholder Comment Matrix – Draft Proposed ISO Rule*. Stakeholders are also encouraged to review the previous feedback provided by Stakeholders on April 15, 2021, and stakeholders may provide further comment on this previous feedback when submitting written comments to the AESO.

The AESO will only consider written comments in finalizing the draft proposed amended Section 103.3. Stakeholders should ensure that comments provided represent all interests within their organization. The scope of comments is limited to the draft proposed amended Section 103.3. The AESO will not consider any comments that are outside of this scope.

The deadline for stakeholders to provide comments to [rules\\_comments@aeso.ca](mailto:rules_comments@aeso.ca) is July 14, 2021. Adherence to deadlines is essential to the timely and effective completion of the ISO rule development process, and as such, the AESO may choose not to consider any stakeholder comments received after the deadline.

The AESO will publish all stakeholder comments, received by the deadline, and the AESO's responses on the AESO website.

If no comments are received by the AESO regarding the draft proposed amended Section 103.3, the AESO will proceed to apply to the Commission for approval of the draft proposed amended Section 103.3 pursuant to AUC Rule 017.

### **Related Materials**

The following documents can be accessed on the Stakeholder Engagement page on the AESO website:

1. *Stakeholder Comment Matrix – Draft Proposed ISO Rule* for the draft proposed amended Section 103.3; and
2. Blackline and clean copies of the draft proposed amended Section 103.3.

If you have any questions, please submit them to [rules\\_comments@aeso.ca](mailto:rules_comments@aeso.ca).

Sincerely,

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