

March 23, 2021

Alberta Electric System Operator
Suite 2500, 330 – 5 Avenue SW
Calgary, AB
T2P 0L4

Dear Pauline McLean and Miranda Keating Erickson:

Re: AESO Fast Frequency Response Pilot Project (“FFR Pilot”) – AESO Request for Forbearance re certain ISO rules

We are writing further to your recent request for the Market Surveillance Administrator (“MSA”) to forbear from enforcing potential contraventions by the “market participants” participating in the FFR Pilot, described below as the “FFR MPs”, and the AESO, of the following ISO rules during the FFR Pilot:

- section 3 of ISO rule 203.1, *Offers and Bids for Energy*;
- sections 2 and 4 of ISO rule 203.3, *Energy Restatement*;
- sections 2, 3, 4, and 6 of ISO rule 203.4, *Delivery Requirements for Energy*;
- sections 4, 5, and 6 of ISO rule 205.2, *Issuing Dispatches and Directives for Operating Reserves*; and
- section 9 of ISO rule 303.1, *Load Shed Service for Imports*

(the foregoing ISO rules collectively referred to as the “FFR Pilot Impact Rules”).

As part of your request, you have advised as follows with regard to the FFR Pilot:

“The AESO currently procures Load Shed Service for imports (“LSSi”) as a transmission reliability product to manage frequency risk as part of the AESO’s efforts to fulfill its inertia restoration obligations. LSSi is currently provided by loads that agree to quickly trip offline following the sudden loss of imports across the interties, which reduces the risk of firm load shed on the system. Loads have traditionally been the only feasible source of LSSi due to their ability to provide a fast response.

As a result of continued advancements, the AESO is interested in exploring the capability of new technologies, such as energy storage, to provide substantially the same service as LSSi. The AESO intends to conduct a small pilot (the “FFR Pilot”) involving market participant(s) who will provide an aggregate volume of 20 – 40 MW of fast frequency response (“FFR”) over a 12 month term (with the overall FFR Pilot occurring over a 12 – 20 month term). The objectives of the FFR Pilot are to evaluate the technical capabilities and performance of new technologies and to identify any market constraints or barriers that may limit participation and determine how best to remove them over the long term. These learnings will help inform the future design of FFR services and potentially increase the competitive market of providers.

During the FFR Pilot, the AESO will continue to maintain volumes of contracted LSSi at or above existing levels, subject to existing commercial terms. The AESO will also require participants in the FFR Pilot to conduct testing to demonstrate they are technically capable of providing FFR before they commence providing FFR services. As a result, the AESO does not believe that the FFR Pilot will impair unduly the safe, reliable and economic operation of the system.”

You also confirm that, with respect to the FFR Pilot, the following are applicable:

- the FFR Pilot will include a FFR Pilot Request for Proposals being issued by the AESO on or about March 24, 2021 for the purpose of selecting FFR service provider(s) (each successful service provider individually or collectively referred to as a “FFR MP” or the “FFR MPs” respectively);
- each FFR MP will be entering into a commercial agreement with the AESO to govern their participation in the FFR Pilot;
- among other things, each commercial agreement will require the FFR MPs to participate in the wholesale electricity market as a “market participant” and register with the AESO as a “pool participant” with respect to the unit they are utilizing for the FFR Pilot (“FFR Unit”);
- as a “pool participant” during the FFR Pilot each FFR MP will be obligated to comply with applicable ISO rules, including the FFR Pilot Impact Rules, and Alberta Reliability Standard (“ARS”); and
- the AESO will be monitoring the FFR MPs pursuant both to its statutory compliance monitoring obligations and their FFR Pilot performance, including the FFR MPs’ compliance with the ISO rules and ARS.

The MSA, pursuant to section 23.1 of the *Transmission Regulation* (“T Reg.”) may decide to “refrain, in whole or in part and conditionally or unconditionally, from the exercise of any power or carrying out any part of its mandate...”, which includes exercising its authority to enforce contraventions of ISO rules or ARS,” ...if it finds as a question of fact, that there are practices,

processes, plans, or other measures in place to protect the safe reliable and economic operation of the Alberta interconnected electric system (“AIES”).

The MSA grants forward-looking forbearance rarely and only under extraordinary circumstances. The MSA has decided to refrain from undertaking enforcement action against the FFR MPs and the AESO with respect to contraventions of the FFR Pilot Impact Rules during the FFR Term¹ having made the following findings of questions of fact pursuant to section 23.1 of the T Reg.:

- a) the FFR Pilot, including the procured volume participating in the FFR Pilot at 20 to 40 MW, is unlikely to unduly impair the safe, reliable, and economic operation of the AIES;
- b) it is in the public interest for the MSA to facilitate pilot projects which the AESO and the MSA deems to be in the public interest, from time to time and on a limited term basis, such as those that may demonstrate the usefulness of and learning about new technologies that are not yet commercial in their own right (or may have other potential applications) in an administratively efficient manner; and
- c) there are measures in place by the AESO to monitor the compliance of the FFR MPs with the ISO rules and ARS, including the AESO’s reporting obligations to the MSA of suspected contraventions of those.

Subject to there being no misstatement of any of the above findings of fact, to there being no circumstance arising from the contravention of the FFR Pilot Impact Rules that may unduly impair the safe, reliable and economic operation of the AIES and to the following, the MSA, during the FFR Pilot Term, will refrain from pursuing any enforcement action against the FFR MPs and the AESO with regard to a contravention of the FFR Pilot Impact Rules:

- that the AESO undertakes its monitoring and reporting obligations to the MSA with respect to the FFR MP’s compliance with ISO rules and ARS;
- that each FFR MP makes a reasonable effort to comply with the FFR Pilot Impact Rules with regard to their FFR Unit;
- that the AESO provides the MSA reporting on the progress of the FFR Pilot during the FFR Term in a form, manner and frequency agreed to with the MSA;
- that the AESO provides updates to the Alberta electric industry and the public on the outcomes of the FFR Pilot after the FFR Term has concluded;
- that the AESO, in its sole discretion, may withdraw its request for forbearance for the FFR MPs, in whole or in part, by providing ten days prior written notice of such withdrawal to the MSA, or the MSA, in its sole discretion, may revoke such forbearance, in whole or in

¹ The FFR Term shall commence on the date the AESO issues the FFR Pilot Request for Proposals and shall end on the earlier of April 1, 2023 from such date or the date the AESO terminates the FFR Pilot. For clarity, the FFR Term shall end for a FFR MP upon the earlier of the expiration or termination of its commercial agreement with the AESO.

part, by providing ten days prior notice to the AESO, and upon the expiration of the notice period for withdrawal or revocation, as the case may be, such forbearance will be of no further force and effect; and

- that the MSA's forbearance shall not become effective until such time that the MSA receives the AESO's signed acknowledgement and agreement to the terms and conditions outlined in this letter requesting forbearance of the FFR Pilot Impact Rules.

For clarity, FFR MPs and the AESO shall continue to be responsible for complying with all applicable ISO rules and ARS outside the scope of the FFR Pilot.

The AESO and the MSA agree to communicate this matter to the Alberta electricity industry and the public by posting a copy of this letter on their respective websites in a timely manner and at such time as mutually agreed upon.

This letter does not constitute forbearance of any ISO rules other than the FFR Pilot Impact Rules and each such other ISO rule and ARS shall remain subject to the MSA's surveillance, investigation, and enforcement thereof. During the course of the FFR Pilot, if the AESO or MSA identify any other ISO rule or ARS that may be affected by the FFR Pilot, the parties shall meet in good faith to discuss whether or not to include such ISO rule or ARS to the list of FFR Pilot Impact Rules, above. The MSA reserves its rights to make a final decision with respect to such inclusion in accordance with its legislative mandate.

If acceptable, please sign and return a copy of this letter at your earliest convenience acknowledging the granting of your request and the associated terms and conditions. This letter may be signed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

Yours truly,

MARKET SURVEILLANCE ADMINISTRATOR

Derek Olmstead
Market Surveillance Administrator

The AESO hereby acknowledges the granting of the request and agrees with the associated terms and conditions outlined in this letter as of this 23rd day of March, 2021.

**INDEPENDENT SYSTEM OPERATOR, operating as the
ALBERTA ELECTRIC SYSTEM OPERATOR**

Miranda Keating Erickson
Vice President, Markets

Pauline McLean
Vice President, Law, General Counsel and Corporate Secretary