

October 1, 2021

To: Market Surveillance Administrator, market participants and other interested parties
("Stakeholders")

**Re: Letter of Notice of Draft Proposed Amendments to Section 202.6 of the ISO rules,
Adequacy of Supply ("Section 202.6")**

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 Stakeholders on the proposed final draft amendments to Section 202.6.

Issue

The AESO determined that Section 202.6 needs to be revised to reconsider certain inputs in adequacy assessments, including removing the exclusion of wind and solar from the adequacy assessment in subsection 4(2)(b)(v).

In alignment with the AESO's current red tape reduction initiative, the AESO has taken this opportunity to identify other amendments to Section 202.6 that eliminate unnecessary, irrelevant, or duplicative requirements, and reduce regulatory burden. These amendments also entail minor administrative amendments to related ISO rules, as described in greater detail below.

Background and Objectives

Pursuant to section 17(k) of the *Electric Utilities Act*, the AESO has a duty to "collect, store and disseminate information relating to the current and future electricity needs of Alberta and the capacity of the interconnected electric system to meet those needs, and make that information available to the public." Further, section 8(a) of the *Transmission Regulation* mandates that the AESO, in forecasting Alberta's transmission needs, must "anticipate future demand for electricity, generation capability and appropriate reserves required to meet the forecast load so that transmission facilities can be planned to be available in a timely manner to accommodate the forecast load and new generation capability".

Section 202.6 applies to the AESO, and currently describes: (i) the means for the AESO to monitor and report on the adequacy of supply; (ii) the manner in which the AESO is to assess the adequacy of supply (both short-term and long-term supply); and (iii) the detailed calculations for these assessments.

On January 5, 2021, the AESO sought feedback from Stakeholders on amendments to Section 202.6 proposing to:

- remove the detailed calculations for supply adequacy forecasts in subsection 2 and the short-term and long-term adequacy assessments in subsections 3 and 4;
- remove the requirements related to the procurement of, and cost recovery for, long-term adequacy threshold actions in subsections 7 and 8;
- transfer certain details to an AESO information document; and
- provide for other administrative amendments.

On January 22, 2021, Stakeholders submitted their feedback on the proposed amendments to Section 202.6. All Stakeholders who participated in the consultation, with the exception of the MSA, were opposed to the AESO's proposal to remove the detailed methodologies for supply adequacy forecasts in subsection 2 and short-term and long-term adequacy assessments in subsections 3 and 4 of Section 202.6. Based on its review of the feedback, the AESO understands that Stakeholders are primarily concerned that if the detailed methodologies are not in an ISO rule it will:

- (i) broaden the AESO's discretion to take actions that intervene in the market in response to supply adequacy issues; and
- (ii) reduce market transparency (i.e., lessen visibility on how the AESO models system variables).

The AESO has considered the Stakeholder feedback and does not agree that the proposed amendments to Section 202.6 will increase the AESO's discretion to intervene in the market or impact market transparency, for the following reasons:

1. *Section 202.6 focuses primarily on supply adequacy from a reliability perspective*
 - Based on Stakeholder feedback and concerns surrounding market transparency, it appears that Section 202.6 is used by industry for purposes that go beyond its intended purpose. However, although Section 202.6 aims to address reliability issues associated with supply shortfall situations, the AESO appreciates that the reports published in accordance with Section 202.6 are a source of market-related information for market participants. The AESO considers it appropriate to retain the authoritative requirements that complement the reliability function of the adequacy forecasts and assessments, while affording the AESO flexibility and appropriate discretion. The AESO is not proposing to remove market indicators and proposes to retain the obligation to publish adequacy-related reports. However, for greater regulatory efficiency and to achieve meaningful red tape reductions, the AESO proposes to move the detailed calculations and methodologies to an AESO information document
2. *The methodology in subsection 3 of Section 202.6 does not capture the full extent of AESO measures in assessing short-term supply adequacy*
 - The real-time adequacy assessment methodology in subsection 3, which also informs the AESO's 7-day *Supply Adequacy Report* (also referred to as the *Short-Term Adequacy Report*), is more of a market-status indicator than an indicator of system reliability. This assessment is not, by itself, fully representative of how the AESO manages supply shortfall in real-time as there are other steps and processes involved, as outlined in Appendix A, *Overview of AESO Supply Adequacy Measures*. To assess supply shortfall and manage real-time adequacy issues, the AESO does not only look at the results of the real-time adequacy assessment calculation. It also employs additional tools and general situational awareness. For example, if the supply cushion is getting tight, the AESO will, among other things: look at room on the interties and allocation of available transfer capability; assess if there is any constrained-down energy; and run studies to identify areas where system losses can be reduced.
3. *The AESO's discretion is circumscribed by a host of legislative and regulatory requirements, as outlined in Appendix A, Overview of AESO Supply Adequacy Measures*

- Stakeholders seem to view Section 202.6 as a means to keep the AESO accountable for the out-of-market actions it may take in response to supply shortfall and the source for the metrics justifying those actions. This points to underlying concerns by Stakeholders about inappropriate use of AESO discretion that could impact the market. In the AESO's view, this fails to recognize the AESO's overarching legislative duties to provide for the safe, reliable, and economic operation of the interconnected electric system, and the fair, efficient, and openly competitive operation of the market, as well as the numerous obligations under ISO rules, reliability standards, and regulations that collectively require the AESO to balance reliability-related and markets-related considerations. These requirements inform the extent to which the AESO applies its discretion in response to supply shortfall situations.

4. *Section 202.6 is a source of regulatory inefficiency and burden*

- Section 202.6 currently includes an exhaustive list of probabilistic model inputs. Because of the regulatory process associated with making any change to an ISO rule, including these model inputs in Section 202.6 makes updating them a source of significant regulatory burden. The AESO is of the view that, as Alberta's electric system transitions to include other technologies (e.g., energy storage, geothermal, hydrogen, etc.) and the generation and load mix evolves, it should have the ability to change its models in fulfillment of its legislative obligations in a timely manner as it sees fit.
- The proposed amendments to Section 202.6 would result in a reduction of 804 regulatory requirements, as defined by the Government of Alberta, and represents more than a 2.5% reduction of the AESO's overall red tape count.

In addition to red tape-related and minor clarifying administrative-type amendments, and based on its review of the Stakeholder feedback, the AESO has introduced modifications to the proposed amendments provided to Stakeholders on January 5, 2021. The proposed final draft amendments to Section 202.6 are reflected in the appended blackline copy. Notably, the AESO is proposing to retain subsection 3 regarding short-term adequacy assessments, including a requirement for the AESO to publish a real-time adequacy report. Consistent with the AESO's general approach to the proposed amendments to Section 202.6, the detailed calculations for short-term adequacy assessments will be removed from subsection 3 and placed in an AESO information document. The AESO is also proposing to add a requirement in subsection 6(1) regarding long-term adequacy threshold actions for the AESO to publish, prior to procuring the services contemplated in subsection 6(1), a report on the potential adequacy issues requiring preventative action.

The AESO's proposed final draft amendments to Section 202.6 entail administrative amendments to related ISO rules. These administrative amendments align with the AESO's proposed amendments to subsection 2 of Section 202.6, as follows:

- Section 306.5 of the ISO rules, *Generation Outage Reporting and Coordination* ("Section 306.5"), at subsection 7(2): Change the first instance of "assessments"¹ to "forecast"
- Section 306.7 of the ISO rules, *Mothball Outage Reporting* ("Section 306.7"), at subsection 7(1): Change from "assess the adequacy of supply" to "forecast the adequacy of supply"

¹ Referring to subsection 2 of Section 202.6, which pertains to the AESO's 24-month supply adequacy forecast.

Stakeholder Comments

Stakeholders may submit written comments to the AESO using the *Stakeholder Comment Matrix – Draft Proposed ISO Rule*. The AESO will only consider written comments in finalizing the draft proposed amendments to Section 202.6. Stakeholders should ensure that comments provided represent all interests within their organization. The scope of comments is limited to the proposed final draft of amended Section 202.6 and the associated administrative amendments to related ISO rules. The AESO will not consider any comments that are outside of this scope.

The deadline for Stakeholders to provide comments is October 22 2021, to rules_comments@aeso.ca. Adherence to deadlines is essential to the integrity of the comment 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, on the AESO website.

If no comments are received by the AESO regarding the proposed final draft of amended Section 202.6, the AESO will proceed to apply to the Commission for approval of amended Section 202.6 pursuant to AUC Rule 017.

AESO Replies

The AESO will provide written responses to the comments received and post those responses on the AESO's website.

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 proposed final draft of amended Section 202.6;
2. Blackline and clean copies of the proposed final draft of amended Section 202.6;
3. Blackline and clean copies of Section 306.5;
4. Blackline and clean copies of Section 306.7; and
5. Appendix A, *Overview of AESO Supply Adequacy Measures*

Sincerely,

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Legal and Regulatory Affairs

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