

May 31, 2024

RE: MSA comments regarding proposed ISO rules

On May 21, 2024, the Alberta Electric System Operator (AESO) released drafts of proposed ISO rules sections 206.1 (Secondary Offer Cap) and 206.2 (Interim Supply Cushion Directives). The MSA offers the following preliminary comments.

SECTION 206.1 (SECONDARY OFFER CAP)

Timing of notifications

Section 3(3)(c) of the proposed ISO rule requires the ISO to notify pool participants of the offer price limit “at least two hours prior to the time it becomes effective.” Subject to section 3 of ISO rules section 203.3 (Energy Restatements), pool participants are required to submit price restatements prior to two hours before the start of a settlement interval.

The proposed rule does not ensure that pool participants have a reasonable opportunity to restate their offers in response to notification from the ISO and therefore puts market participants at unnecessary risk of an unavoidable breach of the proposed ISO rule and the *Supply Cushion Regulation AR 42/2024*. As a result, the ISO notifying pool participants “at least two hours prior to the time it becomes effective” is, in the MSA’s view, a potential deficiency in the proposed ISO rule.

SECTION 206.2 (INTERIM SUPPLY CUSHION DIRECTIVES)

Determining relative economic merit

Section 4(1)(b) of the proposed ISO rule requires the ISO to determine the order of unit commitment directives according to the relative economic merit and physical constraint parameters of eligible long lead time assets. No additional detail is included about how this determination will be made.

This absence of detail in the authoritative document is notable compared to the processes for issuing dispatches and directives under a variety of conditions for other ISO rules. Without a detailed description of the process in the proposed ISO rule specifying how the ISO will make consequential decisions that may result in cost requests under section 7 of the *Supply Cushion Regulation (SCR)*, the MSA is not satisfied that the proposed rule supports a fair, efficient, and openly competitive electricity market or is in the public interest.

Due diligence regarding cost requests

Currently, the process for cost guarantee payments set out in section 6 of the proposed ISO rule requires the ISO to pay “prudent incremental costs,” conditional on the submission of a written

cost request, attestation, and “any other information the ISO reasonably requires to ensure that the ISO has a full and satisfactory understanding of the costs being claimed.” In the current draft of the Actual Incremental Costs Calculation template, the notes indicate that the template need not be submitted to the ISO, unless it is requested. The MSA is concerned that the ISO cannot adequately ensure that cost submissions reflect only prudent and incremental costs on the basis of the attestation alone.

It would be appropriate for the proposed ISO rule to explicitly require that, prior to making a cost guarantee payment to a market participant, the ISO must exercise due diligence and be satisfied that the information submitted by the market participant is true, accurate, and complete, the costs submitted are truly incremental, and the costs submitted were prudently incurred. There is experience from Ontario’s audits of cost requests related to Congestion Management Settlement Credit investigations that makes plain that ex post audits are unlikely to provide sufficient oversight to protect the interests of Alberta electricity consumers and be in the public interest.¹ Absent a mechanism by which the ISO will evaluate and scrutinize costs submitted prior to payment, the MSA is not satisfied the proposed rule supports the fair, efficient, or openly competitive operation of the electricity market and is in the public interest.

If the AESO has any questions about these comments, please do not hesitate to contact Andrew Wilkins, Director, Market Assessment.

Derek Olmstead
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¹ The \$10 million administrative penalty issued by Ontario’s Independent Electricity System Operator in 2015 to Goreway Station Partnership related to its cost requests exemplifies this. The IESO’s public summary of this investigation includes the following: “the IESO has determined that the information that Goreway included in its submissions was not true, correct and complete to the best of its knowledge based upon the information available to it at the time of the cost submission(s). The IESO has further determined that, due to its failure to exercise sufficient due diligence regarding its cost submissions during the period, Goreway failed to correct the untrue, incorrect or incomplete information that it had submitted to the IESO as quickly as it reasonably could and ought to have done, and failed to provided [sic] true, correct and complete information on a timely basis.”

See: <https://www.ieso.ca/Sector-Participants/Market-Oversight/Compliance-Enforcement/Sanctions>