

May 22, 2025

Alberta Electric System Operator  
3000 – 240 4 Avenue SW  
Calgary AB T2E 4H4

Attention: Nicole Kinch, Vice President, Finance

Dear Ms. Kinch,

**RE: Alberta Electric System Operator (AESO) Request for Forbearance in  
Connection with Fast Regulating Reserve (FRR) Pilot Project  
Decision on Updated Information**

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I write in respect of the Market Surveillance Administrator's (MSA) letter of March 24, 2025 (FRR Forbearance Letter) in which the MSA decided to forbear from the enforcement of certain ISO Rules (FRR Impact Rules)<sup>1</sup> in relation to the AESO's upcoming FRR pilot project (FRR Pilot).

On May 14, 2025, by email (May 14 Email), the AESO advised the MSA of the following changes to the FRR Pilot:

- Where the AESO previously expected the FRR Pilot to involve four generating units, including simple cycle gas, hydro, and energy storage, the AESO now expects the FRR Pilot to involve two generating units, including energy storage and potentially hydro; and
- Where the AESO previously expected to procure up to approximately 100 MW in capacity, the AESO now expects to procure up to 70 MW of capacity for the FRR Pilot, potentially split between energy storage and hydro.

The MSA has considered the information provided above, together with the information previously provided by the AESO, and remains of the view that during the FRR Pilot, there will be sufficient measures in place to protect the safe, reliable, and economic operation of the Alberta Interconnected Electric System (AIES).

Accordingly, the MSA will forbear from the enforcement of the FRR Impact Rules on the same terms and conditions as set out in the FRR Forbearance Letter.

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<sup>1</sup> As defined in the FRR Forbearance Letter

Should the foregoing be acceptable, please sign and return a copy of this letter at your earliest convenience. 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**

Per: Derek Olmstead  
Chief Executive Officer



The AESO hereby attests to the accuracy and completeness of the information provided to the MSA in the May 14 Email accepts and agrees to the contents of this letter and the FRR Forbearance Letter and acknowledges the granting of the Forbearance Request<sup>2</sup> on and subject to the terms and conditions set out above and in the FRR Forbearance Letter.

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



PER: Nicole Kinch  
Vice President, Finance

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<sup>2</sup> Defined in the FRR Forbearance Letter

March 24, 2025

MSA File: 24-048

Alberta Electric System Operator  
3000 – 240 4 Avenue SW  
Calgary AB T2E 4H4

Attention: Nicole Kinch, Vice President, Finance

Dear Ms. Kinch,

**RE: ALBERTA ELECTRIC SYSTEM OPERATOR (AESO) REQUEST FOR  
FORBEARANCE IN CONNECTION WITH FAST REGULATING RESERVE (FRR)  
PILOT PROJECT**

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I write to provide the decision of the Market Surveillance Administrator (MSA) on the AESO's request for forbearance in relation to its planned Fast Regulating Reserve Pilot project (FRR Pilot).

## **PROCEDURAL HISTORY**

By a letter dated October 9, 2024 (Forbearance Request), the AESO informed the MSA of the FRR Pilot and requested the MSA forbear from enforcement of certain sections of the *Electric Utilities Act* SA 2003 c E-5.1 (EUA) and the ISO rules. The MSA requested further information from the AESO on October 24, 2024, which the AESO provided on November 20, 2024 (Information Response). Following correspondence from the MSA, the AESO provided additional clarification regarding aspects of the FRR Pilot by email on January 31, 2025 (January Update).

In reaching its decision, the MSA considered and relied upon all information provided by the AESO in the Forbearance Request, Information Response and January Update. References to specific portions of the Forbearance Request, Information Response, or January Update are provided to assist the reader in understanding the MSA's decision in this matter and do not indicate that aspects of either the Forbearance Request or Information Response were not considered.

## **THE PROPOSED FRR PILOT PROJECT**

Through the FRR Pilot, the AESO seeks to test FRR, which the AESO describes as a “new ancillary service required to mitigate the risk of weather-related supply losses and variability.”<sup>1</sup> The AESO has not fully developed the technical details of the FRR product, including the volume required, set points, or ramp rates associated with FRR, as the technical parameters for FRR will

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<sup>1</sup> Forbearance Request, p. 1

be developed through the FRR Pilot. However, the MSA understands that FRR is intended to respond to weather-related supply losses faster than reserve products currently procured under the ISO rules. Participants in the FRR Pilot will be required to provide FRR and will be required to support the AESO in developing, implementing, and testing the technical parameters for providing FRR. Although the technical and operational requirements for FRR are not yet finalized, the performance requirements will be similar to those that currently exist for regulating reserves.

Although final selection has not yet occurred, the FRR Pilot will involve the participation of four generating units (Participating Units): one simple-cycle gas facility, one energy storage facility, and two hydro facilities.<sup>2</sup> The participation of the Participating Units is currently subject to conclusion of commercial arrangements between the AESO and the electricity market participants responsible for the Participating Units.<sup>3</sup> The FRR Pilot will run for a maximum of two years, with the ultimate duration depending upon outcomes observed during the FRR Pilot and concerns which may arise during the pilot.<sup>4</sup>

During the FRR Pilot, the AESO will schedule days on which it will test Participating Units' ability to respond to weather-related supply loss and variability. The AESO may test single or multiple participating units on scheduled testing days and will provide notice to any Participating Unit scheduled for testing no later than 8:00AM MT one business day prior to the start of each test.<sup>5</sup> Participating Units' capacity will be removed from the energy market when scheduled for testing so, to protect system reliability, the AESO will only schedule testing on days on which it anticipates robust supply in the energy market.<sup>6</sup>

## **THE MSA'S FORBEARANCE JURISDICTION**

The MSA grants forward-looking forbearance of the kind sought by the AESO in the Forbearance Request rarely and only under extraordinary circumstances. The MSA may forbear from carrying out any part of its mandate, in whole or in part and conditionally or unconditionally, pursuant to section 23.1(1) of the *Transmission Regulation* AR 86/2007 (TReg). To exercise its forbearance jurisdiction under the TReg, the MSA must find as a fact that practices, plans, or other measures sufficient to protect the safe, reliable, and economic operation of the interconnected system are in place.<sup>7</sup>

## **THE FORBEARANCE REQUEST**

The AESO requested:

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<sup>2</sup> Forbearance Request, p. 2

<sup>3</sup> January Update

<sup>4</sup> Information Response, pdf p. 2

<sup>5</sup> January Update

<sup>6</sup> Forbearance Request, pdf p. 2

<sup>7</sup> TReg, s. 23.1(1)

- 1) Acknowledgment from the MSA that the FRR Pilot, as described in the Forbearance Request, does not give rise to any compliance concerns from the MSA's perspective; and
- 2) Forbearance from the MSA's enforcement of any contraventions by the AESO or FRR service providers of sections 18(3) and 20(1)(d) of the EUA and the sections of the ISO rules identified that may arise solely as a result of the provision of FRR as part of the FRR Pilot.<sup>8</sup>

The AESO identified the following sections of the ISO Rules which “coincide with the FRR pilot project” and which raise compliance concerns (FRR Impact Rules)<sup>9</sup>:

<b>ISO rule</b>	<b>Affected subsections</b>
203.1 – <i>Offers and Bids for Energy</i>	3
203.3 – <i>Energy Restatements</i>	2 & 4
203.4 – <i>Delivery Requirements for Energy</i>	2, 3,4, 6 & 7
205.2 – <i>Issuing Dispatches and Directives for Operating Reserves</i>	3 & 4
205.4 – <i>Regulated Reserve Technical Requirements and performance Standards</i>	3, 5 & 6
205.10 – <i>Dispatches for Concurrent Services</i>	2
302.1 – <i>Real Time Transmission Constraint Management</i>	2(3)
505.3 – <i>Coordinating, Synchronization, Commissioning, Model and Reactive Power Validation Testing and Ancillary Services Testing</i>	3

The AESO also stated that:

The AESO has identified above existing ISO rule provisions applicable to the FRR pilot project and for which the AESO considers forbearance to be required. However, the FRR pilot project may also result in unanticipated contraventions of ISO rules or Alberta reliability standards. Additionally, new or amended ISO rules for the AESO's restructured energy market [(REM)] initiative may come into effect during the term of the FRR pilot project.

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<sup>8</sup> Forbearance Request, p. 5

<sup>9</sup> Forbearance Request, pp. 2 - 4

Although not explicitly framed as such, the MSA understands the foregoing to be a request that the MSA forbear from enforcing ISO rules other than those identified above, including rules which may be amended or developed as a part of the REM initiative.

In the Forbearance Request, the AESO indicated that it was seeking forbearance from enforcement of Alberta Reliability Standards, contraventions of which might arise from participation in the FRR Pilot. In the Information Response, the AESO clarified that it was not seeking forbearance from any Alberta Reliability Standards.<sup>10</sup>

## **MEASURES IN PLACE TO PROTECT THE SAFE, RELIABLE AND ECONOMIC OPERATION OF THE INTERCONNECTED ELECTRIC SYSTEM**

The MSA is satisfied that, during the FRR Pilot, there will be sufficient measures in place to protect the safe, reliable, and economic operation of the Alberta interconnected electric system (AIES).

With respect to the safe and reliable operation of the AIES, the AESO stated that it would only schedule testing for Participating Units during periods when the AESO anticipates robust supply in the energy market.<sup>11</sup> The AESO also confirmed that, should an EEA event occur during scheduled testing, it will provide Participating Units 5 minutes' notice to stop providing FRR volumes,<sup>12</sup> which will then return that Participating Unit's capacity to the energy market.<sup>13</sup> The MSA finds as a fact that these measures will protect supply adequacy in the course of the FRR Pilot, supporting the safe and reliable operation of the Alberta Electricity Market.

The MSA also notes that, while the AESO has not finalized the technical and operational requirements for FRR, the requirements for FRR will be similar to those for regulating reserves.<sup>14</sup> The AESO also confirmed that it will procure the same volume of operating reserves as it would under normal circumstances, should any Participating Unit provide both FRR and operating reserves.<sup>15</sup> The MSA finds as a fact that these measures will ensure adequate reserves are procured during the FRR Pilot, supporting the safe and reliable operation of the Alberta Electricity Market.

The AESO stated that it will procure approximately 100MW of capacity for the FRR Pilot, split between a simple-cycle gas facility, two hydro facilities, and an energy storage facility. The AESO also stated that Participating Units will be required to clear their market obligations for days they are scheduled for testing and initially stated market participants will be given 48 hours' advance notice to do so.<sup>16</sup> In the January Update, the AESO clarified that it will provide market participants

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<sup>10</sup> Information Response, pdf p. 4

<sup>11</sup> Forbearance Request, p. 2

<sup>12</sup> January Update

<sup>13</sup> Information Response, pdf p. 8

<sup>14</sup> Information Response, pdf p. 4; January Update

<sup>15</sup> Information Response, pdf p. 8

<sup>16</sup> Forbearance Request, p. 2

notice of scheduled testing no later than 8:00AM MT the business day prior to scheduled testing beginning.<sup>17</sup>

On this basis, it appears that up to 100MW may be removed from the energy or operating reserves markets, or both, which has the potential to move market prices in those markets. The AESO has also stated that it plans to publicly post the dates and times of scheduled tests of FRR,<sup>18</sup> but is considering providing a “lessons learned” report at the conclusion of the FRR Pilot which would disclose test volumes and results in aggregate but would not contain specific information about the individual participants or tests during the FRR Pilot.<sup>19</sup>

The MSA is concerned that, by publishing the dates and times of scheduled tests under the FRR Pilot, from which market participants can infer tighter supply conditions, the AESO may move the energy or operating reserve markets away from a competitive outcome. However, the MSA finds as a fact that, if the AESO delays publication of scheduled testing until at least 60 days after any scheduled testing, this will be sufficient to protect the economic operation of the interconnected electric system.

Based on the foregoing, and subject to the AESO meeting the conditions set out in section VII, below, the MSA finds as a fact that, during the FRR Pilot, there will be sufficient measures in place to protect the safe, reliable, and economic operation of the AES.

## **MSA COMPLIANCE CONCERNS**

As noted above, the AESO requested the MSA acknowledge that the FRR Pilot, as described in the Forbearance Request, does not give rise to any compliance concerns from the MSA’s perspective.<sup>20</sup> The MSA is not prepared to provide such an acknowledgement.

The MSA expects the AESO and market participants involved in the FRR Pilot to conduct themselves in accordance with the ISO rules and, as set out below, will forbear from enforcing certain provisions of the EUA and ISO rules to facilitate the FRR Pilot.<sup>21</sup> As the AESO acknowledges, unanticipated contraventions of additional ISO rules may occur as a result of participation in the FRR Pilot. The AESO represented to the MSA that it will bring any unforeseen compliance issues to the MSA; the MSA will consider all such matters reported to it on their own facts and in accordance with its published procedures.

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<sup>17</sup> January Update

<sup>18</sup> Information Response, pdf p. 9

<sup>19</sup> January Update

<sup>20</sup> Forbearance Request, p. 5

<sup>21</sup> Forbearance Request, p. 5

However, the MSA is not satisfied that, on its own, monitoring for and reporting any unforeseen compliance issues to the MSA is sufficient to protect the safe, reliable, and economic operation of the AES. As such, the MSA cannot, and does not, provide the requested acknowledgment.

## **FORBEARANCE DECISION**

Based on all the foregoing, and subject to there being no misstatement of fact in the Forbearance Request, Information Response or January Update and no circumstance arising from the contravention of the FRR Impact Rules that may unduly impair the safe, reliable and economic operation of the AES, the MSA will forbear from enforcement of the FRR Impact Rules in relation to the FRR Pilot.

The MSA's forbearance from enforcement of the FRR Impact Rules is limited to contraventions of those rules:

- (a) by market participants responsible for Participating Units finally selected by the AESO to participate in the FRR Pilot;
- (b) which arise out of the provision of FRR by Participating Units in accordance with the technical requirements for FRR established by the AESO for the FRR Pilot and any participation agreement between the AESO and the market participant responsible for the Participating Unit; and
- (c) which occur during periods the subject Participating Unit is scheduled by the AESO for testing under the FRR Pilot.

The MSA will also forbear from enforcement of EUA subsection 20(1)(d) as against the AESO. The MSA does not grant forbearance from any ISO rules or provisions other than those specifically identified above whether current or future; market participants and the AESO shall continue to be responsible for complying with all applicable ISO rules, Alberta Reliability Standards, and provisions of all enactments outside the scope of the FRR Pilot.

The MSA's forbearance from enforcement of the provisions of the ISO rules and EUA listed above shall terminate automatically and without further notice to the AESO or any other market participant on December 31, 2027 or the AESO's termination of the FRR Pilot, whichever occurs first.

The MSA's forbearance from enforcement of the provisions listed above is conditional upon the AESO:

- (a) accepting and agreeing to the contents of this letter;
- (b) delaying publication of dates and times scheduled for FRR testing until at least 60 days following the testing;



- (c) providing the MSA with a list of all generating and market participants finally selected to participate in the FRR Pilot following conclusion of commercial arrangements between the AESO and market participants responsible for all Participating Units; and
- (d) notifying the MSA of all scheduled FRR testing by email to [enforcement@albertamsa.ca](mailto:enforcement@albertamsa.ca) concurrently with notice to the Participating Unit scheduled for testing

Finally, 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.

If acceptable, please sign and return a copy of this letter at your earliest convenience. 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*

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Per: Derek Olmstead  
Chief Executive Officer

The AESO hereby attests to the accuracy and completeness of the information provided to the MSA in the Forbearance Request, Information Response and January Update; accepts and agrees to the contents of this letter and acknowledges the granting of the Forbearance Request on and subject to the terms and conditions set out above.

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

*Nicole Kinch*

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Per: Nicole Kinch  
Vice President, Finance