

August 9, 2024

RE: MSA comments regarding the AESO's Shorter Settlement Options Paper and Intertie Participation Options Paper

On July 18, 2024, the Alberta Electric System Operator (AESO) released options papers in support of the Shorter Settlement and Intertie Participation work streams of the Restructured Energy Market (REM) stakeholder consultation. The MSA offers the following comments.

COMMENTS ON THE SHORTER SETTLEMENT OPTIONS PAPER

The MSA supports implementation of five-minute settlement intervals. The MSA sees significant benefits, many of which have been identified in the Shorter Settlement Options Paper (Settlement Paper):¹

- Improves price fidelity by signaling the value of energy at the time when it is produced and consumed
- Improves incentives for market participants – both generators and price responsive load – to respond more quickly to dispatches, which enhances operational certainty and reduces reliance on regulating reserves and potential future ramping products
- Improves incentives for flexible and fast ramping technologies, including generation, load, storage, and interties
- Aligns the settlement period with the 5-minute dispatch interval that the MSA expects will be used for Security Constrained Economic Dispatch (SCED)
- Eliminates uplift payments such as Payments to Suppliers on the Margin and Adjustments for Load on the Margin (ALM)

These advantages are likely to become more pronounced as the power system continues to incorporate more intermittent generation, energy storage, and demand-side participation. Even based on the power system and generation mix today, conditions can change significantly within a 15-minute interval due to factors such as intermittent generation variability, asset trips, and load ramp events. As such, the MSA is of the view that five-minute settlement is needed to adequately capture the benefits listed above.

As noted in the Settlement Paper, moving to 15-minute settlement now and then five-minute settlement in the future would create unnecessary costs. Given the overwhelming industry trend

¹ <https://www.aesoengage.aeso.ca/44207/widgets/185906/documents/134988>

towards five-minute settlement, the MSA recommends minimizing long-run costs by implementing five-minute settlement at the outset.

The MSA recognizes the potential costs of this transition and supports efforts to minimize these costs. The wide range of cost estimates reported in the Settlement Paper, especially for generators, suggests that different implementation approaches may have significant cost implications. The MSA supports continued analysis of these details to leverage economies of scale and avoid duplication of costs.

It is not necessary to have all customers on the same settlement interval to achieve benefits. There is currently limited benefit to a shorter settlement interval for distribution-connected loads due to the design of distribution tariffs, retail energy rates, and the data used for settlement. This will change as the ongoing transition towards interval meters for these customers creates new opportunities for innovative rate design both at the retail energy and distribution level. In the meantime, the MSA believes the following option would achieve most of the benefits of universal five-minute settlement and is worth assessing as a preliminary step until the required metering infrastructure is installed by distribution facility owners:

- Five-minute settlement for transmission- and distribution-connected generators
- Five-minute settlement for intertie transactions
- Five-minute settlement for transmission-connected loads
- Hourly settlement for distribution-connected loads

A phased approach could then be used to transition distribution-connected loads to five-minute settlement as interval meters are installed.

COMMENTS ON THE INTERTIE PARTICIPATION OPTIONS PAPER

The MSA supports priced interties. The MSA sees significant benefits, many of which have been identified in the Intertie Participation Options Paper (Intertie Paper):²

- Promotes open and fair competition with domestic resources
- Enables more efficient allocation of available transfer capability (ATC)³
- Enables more efficient procurement and utilization of ancillary services such as Load Shed Service (LSS) and Fast Frequency Response (FFR)

² <https://www.aesoengage.aeso.ca/44223/widgets/186005/documents/134912>

³ As identified in the Intertie Paper, when imports are ATC constrained, and if interchange transactions are settled at the uniform Alberta price, there may be incentives for importers to offer at the price floor to capture ATC when they believe the import will be profitable, resulting in similar issues to the current framework.

- Enables more effective cost-benefit analysis of intertie-related infrastructure such as new interties or intertie enhancements
- Enables provision of ancillary services such as operating reserves over interties
- May increase the ability to attract imports when energy is scarce in Alberta and exports during supply surplus

With respect to the AESO joining one of the Western Markets (Markets+ or EDAM), the MSA recognizes the challenges laid out by the AESO in the Intertie Paper. However, while the MSA does not necessarily advocate for this option, the AESO's assessment in the narrow context of intertie participation does not allow for comprehensive evaluation of the costs and benefits of participation in one of these markets. In other words, framing this option as an alternative to priced interties understates the impact it would have on all aspects of the REM and the Alberta electricity sector at large. As such, the MSA's support of priced interties should not be viewed as preferential relative to the Western Markets. If the AESO wishes to constructively evaluate this option, the MSA recommends that it do so in a more comprehensive manner.

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

Derek Olmstead
Administrator & CEO
Market Surveillance Administrator