

July 4, 2025

RE: AESO's Fast Frequency Response Plus (FFR+) Proposal

This letter provides the MSA's feedback on the AESO's FFR+ proposal.

As a matter of principle, the MSA supports the use of openly competitive markets to drive outcomes that are fair and efficient. Absent market failures, competitive markets will achieve the objectives set out in the Rationale Document, which reflect section 17.1(2) of the *Electric Utilities Act*. While the AESO has provided its views on the viability of a market-based approach, no market failures have been identified and documented.

The AESO identified three core criteria in the Rationale Document:

1. **Ownership and technology diversity:** The AESO expressed concerns about the current concentrated nature of ownership of battery energy storage systems. Given the absence of documented barriers to entry, this concentration would not necessarily be expected to persist in a market-based approach. Furthermore, there is no reason to believe that a contracting approach would be more likely to induce participation from new entrants than a market-based approach.
2. **Sufficient capacity:** The AESO suggested that a surplus of FFR-qualified capacity – upwards of 1,000 MW – is required to enable competitive outcomes from a market solution, thereby resulting in excess capacity and higher costs than a procurement of 750 MW. The AESO also suggested that arming for the full 750 MW of FFR will be a rare occurrence, with most hours requiring substantially less, or even no FFR. This would suggest that a competitive market, with approximately 750 MW of capacity, would yield lower prices in most hours with low arming volumes, and relatively higher prices during rare times of FFR scarcity. The MSA views this as being efficient and consistent with a competitive outcome.
3. **Clear market signals:** The AESO indicated that revenue opportunities would be unclear until at least the implementation of the REM design. The MSA notes that the AESO expects to finalize its REM design next month. The legal requirement that the AESO restore intertie capability should provide a more credible commitment that an FFR market will be implemented in a predictable manner. This may have the effect of making an investment decision for FFR-capable capacity less risky than a typical merchant investment based on forward-looking expectations of market conditions.

The MSA does not accept that competitive markets are inherently more costly than negotiated contracts. While the revenue certainty from contracts may allow for a lower cost of capital in some circumstances, awarding long-term contracts also precludes the benefits that result from

competition, upon which the Alberta electricity market framework is established. These benefits include increased innovation; transparent price signals that promote efficient entry and exit; flexibility to meet changing system needs; and rivalry between market participants that disciplines the exercise of market power.

The MSA sees many similarities between FFR and the current operating reserve (OR) products. Both products require assets with specific capabilities to provide ancillary services that are required in inelastic quantities. While the AESO is considering improvements to the OR markets, they have generally produced competitive outcomes, and the MSA views this as an indication that a similar construct is likely to be effective for FFR. Further, as the market design in Alberta continues to evolve, market-based FFR could be more adaptable to future enhancements, such as co-optimization, that may be impeded by excessively long contracts that cannot foresee all technological and economic developments possible in the decades to come.

The MSA recognizes that the AESO is seeking to support full import flows on the Alberta-British Columbia intertie and the Montana-Alberta Tie Line, and that competitive procurements can be effective if markets are impeded by market failures. Without identified and documented market failures, the MSA recommends that the AESO rely on competitive markets to fairly and efficiently procure necessary services for Albertans.

Andrew Wilkins, Executive Director, Market Assessment, would be happy to make himself available to address any questions that the AESO may have regarding the comments above.

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