



Market Rule Amendment Submission

This form is used to request an amendment to, or clarification of, the *Market Rules*. Please complete the first four parts of this form and submit the completed form by email or fax to the following:

Email Address: Rule.Amendments@ieso.ca

Fax No.: (416) 506-2847 Attention: Market Rules Group

Subject: Market Rule Amendment Submission

All information submitted in this process will be used by the *IESO* solely in support of its obligations under the *Electricity Act, 1998*, the *Ontario Energy Board Act, 1998*, the *Market Rules* and associated policies, standards and procedures and its licence. All submitted information will be assigned the *confidentiality classification* of “Public” upon receipt. You should be aware that the *IESO* will *publish this amendment submission* if the *Technical Panel* determines it warrants consideration and may invite public comment.

Terms and acronyms used in this Form that are italicized have the meanings ascribed thereto in Chapter 11 of the *Market Rules*.

PART 1 – SUBMITTER’S INFORMATION

Please enter contact information in full.	
Name: <u>IESO Staff</u>	
(if applicable) <i>Market Participant / Metering Service Provider No.</i> ¹ : _____	<i>Market Participant Class</i> : _____
Telephone: <u>905-855-6464</u>	Fax: _____
E-mail Address: <u>Rule.Amendments@ieso.ca</u>	

PART 2 – MARKET RULE AMENDMENT SUBMISSION INFORMATION

Subject: <u>IESO Procurement Markets</u>	
Title: <u>Duration of Contracted Ancillary Services Contracts and Reliability Must Run Contracts</u>	
Nature of Request (please indicate with x)	
<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion
<input type="checkbox"/> Addition	<input type="checkbox"/> Clarification
Chapter: <u>7</u>	Appendix: _____ Sections: <u>9.3</u>
Sub-sections proposed for amending/clarifying: <u>9.3.1.1</u>	

¹ This number is a maximum of 12 characters and does not include any spaces or underscore.

PART 3 – DESCRIPTION OF THE ISSUE

Provide a brief description of the issue and reason for the proposed amendment. If possible, provide a qualitative and quantitative assessment of the impacts of the issue on you and the *IESO-administered markets*. Include the Chapter and Section number of the relevant *market rules*.

Under Chapter 7, section 9.3.1, the IESO is obligated to limit the term of contracted ancillary services contracts to not more than 18 months. Chapter 7, section 9.7.1 requires the duration of reliability must-run (RMR) contracts to be limited to not more than 1 year.

Contracted Ancillary Services Contracts:

Contracted ancillary services include regulation (automatic generation control or AGC), black start capability, voltage control and reactive support, and emergency demand response load.

A market participant wishing to be a new provider of contracted ancillary services may need to incur significant costly equipment upgrades. Market participants have indicated that the cost of these upgrades must be amortized over the period of the contract, as there is no guarantee of revenue beyond the 18 month term of the contract. Amortizing a capital expenditure over this relatively short time frame increases the up-front costs to the market, with lower prices not expected until subsequent contracts. In addition, if equipment upgrades are necessary, prospective service providers may choose not to compete with incumbent service providers due to the higher costs associated with the first contract.

Other North American electricity markets typically operate markets for ancillary services that are contracted in the IESO-administered markets. These other ISO's obtain ancillary services through day-ahead or real-time markets, with participants bidding to provide the service. An exception is black start capability. Black start capability contracts in other North American markets are generally 3 years in length, with longer contracts encouraged.

The relatively short time frame for ancillary service and RMR contracts results in incremental requirements for initial procurement, subsequent negotiations, and potential involvement of the Ontario Energy Board. These additional requirements impact the participant providing the service, the IESO, and potentially the OEB, without providing any appreciable benefit.

Given that the requirement for ancillary services are essential to the operation of the IESO-controlled grid and the requirements remain reasonably stable, longer term contracts would benefit both the service provider, the IESO and the OEB.

Reliability Must Run Contracts:

The present requirement to limit RMR contracts to a maximum of 12 months may result in a contract duration that is shorter than the foreseen requirements, resulting in incremental effort including potential Ontario Energy Board hearings. At the present time, the IESO may forecast the requirement for an RMR contract as part of its 18 month forecast. Although RMR contracts are typically required to address localized, temporary reliability concerns, alternative solutions to these problems generally require more than 12 months to identify and implement.

PART 4 – PROPOSAL (BY SUBMITTER)

Provide your proposed amendment. If possible, provide suggested wording of proposed amendment.

Contracted Ancillary Services Contracts:

Chapter 7, section 9.3.1 lists the requirements for contracted ancillary services contracts. This section should be amended to allow contracts of up to 36 months in length. Longer contracts are appropriate, given that the requirements for ancillary services are not expected to change in the foreseeable future. The present requirement to obtain ancillary services is derived from NERC standards.

This proposed change would allow ancillary service providers to recover any incremental capital costs associated with equipment upgrades over a longer period of time, decreasing the up-front costs to the market. In addition, the market would benefit from costs that could remain more stable over a longer time period. Finally, the potential of longer contract terms may encourage additional participants to offer contracted ancillary services. Interest by additional service providers, may in some cases, such as regulation service, result in a more competitive “Request for Proposal” process.

Reliability Must Run Contracts:

Chapter 7, section 9.7.1 lists the requirements for reliability must-run contracts. This section should be amended to allow contracts of up to 18 months in length. This proposed change would align the length of the contracts with the IESO’s 18 month forecast. The additional time would provide an opportunity for a suitable alternative reliability solution to be identified and implemented.

PART 5 – FOR IESO USE ONLY

Technical Panel Decision on Rule Amendment Submission: warrants consideration

MR Number: MR-00325-R00, MR-00328-R00

Date Submitted to *Technical Panel*: 29 August 06

Accepted by *Technical Panel* as: (please indicate with x) Date:
 General Urgent Minor 29 August 06

Criteria for Acceptance:

1. It identifies means to better enable the market to satisfy the market design principles. The relatively short duration of ancillary service contracts may prevent prospective service providers from competing with incumbent service providers. Prospective service providers have indicated that the short duration of ancillary service contracts does not provide sufficient assurance that the costs associated with equipment upgrades can be recovered. As a result, the market may not benefit from the efficiencies that would result from a competitive procurement process.
2. It identifies ways to simplify the market. By extending the permissible length of RMR contracts to 18 months, the likelihood of implementing an alternative solution before a second contract is required would be increased.

Priority: High

Criteria for Assigning Priority:

1. Technical Feasibility: The proposed changes can be implemented using existing IESO and market participant processes.
2. Practical Consequences: The proposed changes are relatively straight-forward, and are likely to be generally accepted. Approval of the proposed changes in 2006 would aid Market Participants and the IESO in negotiating contracts in 2007.

Not Accepted (please indicate with x):

Clarification/Interpretation Required (please indicate with x):

Technical Panel Minutes Reference: IESOTP 191-1

Technical Panel Comments: The Technical Panel requested that the proposed amendments be published as two separate documents to allow stakeholders to review each issue on its own merits. Panel members stated that the two contracting processes are fundamentally different. Contracting for ancillary services is a market-based procurement process, while the needs for RMR contracts are driven by localized reliability concerns. The proposal to lengthen the maximum permissible term for ancillary services contracts will continue as MR-00325-R00. The proposal to lengthen the maximum permissible term of RMR contracts will proceed as MR-00328-R00.