

# **URGENT AMENDMENTS TO MARKET RULES**

## **URGENT AMENDMENT 2008-01**

### **MARKET RULES AMENDED**

- Rule 5.9.8
- Rule 6.2
- Rule 6.2.20
- Rule 7.6.4
- Rule 7.6.4A

### **REASONS FOR URGENT AMENDMENTS**

#### **Background**

One of the major factors contributing to the substantial surpluses which have occurred over the past couple of years for Capacity Based Ancillary Services (CBAS) is the requirement in the Market Rules that the NBSO pay for CBAS based on hourly selection. This methodology causes 100% of supplier compensation to be based on the needs identified by NBSO going into the hour.

This approach places no value on the fact that a supplier has committed to having the service available whether or not the NBSO actually needs it at the time of the hour-ahead dispatch. In reality, capacity obligations in New Brunswick and external markets have largely been dealt with by the time hour-ahead dispatch occurs, so basing payments solely on hour-ahead dispatch seem counterintuitive.

On the other hand, paying for CBAS solely on the basis of monthly nomination is also inappropriate as it places no value on the needs identified by the NBSO going into a particular hour. Changing circumstances resulting in increases or decreases in hourly needs are ignored, and it is possible that supply conditions may change such that the supply which made the most economic sense at the start of the month may no longer be the most economical choice.

#### **Summary**

Determining payment for CBAS solely on either an hourly or monthly basis is clearly inappropriate. As noted earlier, the current methodology (hourly) has been identified as a prime contributor to the creation of surpluses for CBAS, and allowing it to continue for any longer than necessary only exacerbates the problem. Accordingly, NBSO staff proposed that payment terms be split into two components, one of which is based on monthly nomination, with the other based on an hourly dispatch. The monthly component would be the larger one (90%) because it is in that time frame that a final commitment of capacity to one market vs. another is typically made, and the capacity value is much higher than the incremental costs associated with being selected hour-

ahead to provide the service. This proposal has the support of the Market Advisory Committee as a key component of a larger strategy to deal with the CBAS surplus issue.

## **AMENDMENTS**

The addition of Market Rules 6.2.20 and 7.6.4A constitute the substantive amendments to the Market Rules, while the remaining three amendments are required to accommodate the substantive changes.

The amended Market Rules with changes lined out and additions underlined read as follows:

*5.9.8 Monthly commitment, Scheduling, and activation of an Ancillary Service shall be affected in accordance with Chapter 6 and with the provisions of the applicable Ancillary Services contract.*

*6.2 Ancillary Service Self-Supply, ~~and~~ Nomination, and Monthly Procurement*

*6.2.20 The SO shall commit to procurement of Automatic Generation Control, Load Following, and Operating Reserve capacity for a given month based on the difference between the forecasted requirement for such services, and the total self-supply.*

*7.6.4 The Settlement Amount for each Ancillary Service other than Black Start Capability Service shall be a variable monthly amount that reflects the respective rates provided for in the applicable Ancillary Services contract and (i) the committed SO procurement quantities of each Ancillary Service from each Facility for the month and (ii) the quantities of each Ancillary Service scheduled from each Facility in each applicable Final Hourly Commitment Schedule or otherwise dispatched from that Facility.*

*7.6.4A In the case of Ancillary Service contracts in effect as of July 1, 2008, existing pricing arrangements for Automatic Generation Control, Load Following, and Operating Reserve services, 90% of the price will apply in the case of monthly commitments and the remaining 10% will apply in the case of final schedules.*

## **EFFECTIVE DATE**

These urgent amendments take effect on July 1, 2008.

## **Authority**

These urgent amendments are made pursuant to s.61 of the *Electricity Act (New Brunswick)* and Market Rule 3B.6.6. These amendments and their effective date were approved by the Board of Directors of the New Brunswick System Operator at a meeting held June 16, 2008.

## **Review Procedure**

Section 61(3) of the *Electricity Act* allows any person to apply to the Energy and Utilities Board for a review of these amendments.

