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## Market Rule Amendment Proposal

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### PART 1 – MARKET RULE INFORMATION

Identification No.:	<b>MR-00325-R00</b>		
Subject:	<b>IESO Procurement Markets</b>		
Title:	<b>Duration of Contracted Ancillary Service Contracts</b>		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input type="checkbox"/> Addition
Chapter:	7	Appendix:	
Sections:	9.3.1		
Sub-sections proposed for amending:			

### PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel review	22 August 06
2.0	Revised to reflect Technical Panel comments and Post for Stakeholder Review	05 September 06
3.0	Submit for Technical Panel Vote	22 September 06
4.0	Recommended by Technical Panel; Submitted for IESO Board Approval	3 October 2006
5.0	Approved by IESO Board	17 November 06
Approved Amendment Publication Date:	20 November 06	
Approved Amendment Effective Date:	12 December 06	

### PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

#### Summary

The amendment proposes to extend the permitted term of contracted ancillary service contracts from 18 months to 36 months.

These longer term contracts are expected to:

- Allow greater opportunity for potential new contracted ancillary service providers to enter the procurement market;
- Result in lower up-front costs associated with contracted ancillary service contracts.

#### Background

For a prospective new provider of contracted ancillary services to enter the market, significant equipment upgrades are often necessary. Market participants have indicated that the cost of these upgrades must be amortized over the period of the contract, as no guarantee of revenues is in place beyond 18 month term of the contract. Amortizing a capital expenditure over this relatively short time frame increases the up-front cost to the market, with lower prices not expected until subsequent contracts. Additionally, prospective service providers may choose not to compete with incumbent service providers due to the higher costs associated with the first contract following an equipment upgrade.

Other North American electricity markets typically operate markets for ancillary services that are contracted in the IESO-administered markets. Generally, 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.

#### Discussion

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

**PART 3 – EXPLANATION FOR PROPOSED AMENDMENT**


**PART 4 – PROPOSED AMENDMENT****Chapter 7:****9.3 Contracted Ancillary Service Contracts**

9.3.1 The *IESO* shall enter into *contracted ancillary service* contracts with *ancillary service providers*. Such agreements shall, subject to sections 9.3.4 and 9.3.6:

9.3.1.1 be limited in term to not more than ~~18~~36 months; and

**PART 5 – IESO BOARD DECISION RATIONALE**

Longer term ancillary service contracts are expected to:

- Allow greater opportunity for potential new contracted ancillary service providers to enter the procurement market, thereby increasing competition in the provision of these services; and
- Result in lower up-front costs associated with contracted ancillary service contracts.