



## **DECISION**

IN THE MATTER OF an Application by New Brunswick System Operator for the Approval of a Change to the Energy Imbalance pricing provisions of the Open Access Transmission Tariff, as approved by the Board

**February 14, 2006**

**NEW BRUNSWICK**

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

New Brunswick System Operator (“NBSO”) in an application to the New Brunswick Board of Commissioners of Public Utilities (“Board”), dated October 6, 2005 requested approval of a change to the Energy Imbalance pricing provisions of the Open Access Transmission Tariff (“OATT”).

The specific change requested was to revise the pricing so as to settle all energy imbalances at the New Brunswick market’s Final Hourly Marginal Cost (“FHMC”) rather than at the current pricing of:

The lesser of the FHMC and the Keswick node price for excess energy provided; and the greater of the FHMC and the Keswick node price for shortfalls in energy.

The application was accompanied by evidence in support of the requested change.

A notice was published, pursuant to an order of the Board, stating that a pre-hearing conference would be held on November 4, 2005 if any intervenor were to request an oral hearing. No party requested an oral hearing so a pre-hearing conference was not necessary.

The Board established a process whereby parties could submit written questions to NBSO and provide written submissions to the Board. The following provided written submissions:

WPS Energy Services Inc. (“WPS”)

Emera Inc. (“Emera”)

The Market Advisory Committee to NBSO (“MAC”)

NB Power Distribution and Customer Service Corporation (“Disco”)

NB Power Generation Corporation (“Genco”)

NB Power Transmission Corporation (“Transco”)

The Public Intervenor (“PI”)

NBSO replied to these submissions.

WPS, Emera and MAC supported the application on the basis that it would encourage market competition. Disco, Genco and Transco generally supported the application but expressed a concern that there may not be sufficient monitoring and disciplinary measures in place to enable NBSO to discourage exploitation of the system. They stated that NBSO should be required to demonstrate to the Board that it has specific measures in place to monitor improper behaviour and to deal effectively with such behaviour.

The PI stated that FHMC should be defined as the lowest price for the next MWh of generation for each hour quoted by any market participant. He also submitted that a reasonable deviation bandwidth for over and under supply of load and generation should be established. The PI also requested that market participants be asked to comment on whether bids to supply ancillary services published on a real time basis would assist in developing a competitive market.

All parties supported the concept of using FHMC. The Board notes that, in recent months, the bids for FHMC have become more consistent and appear to be establishing a "benchmark" price that is appropriate for New Brunswick. The Board will therefore approve the requested change to the Energy Imbalance pricing provisions. The specific wording for the OATT is discussed below. The Board notes that it will continue to monitor this matter and, if necessary, conduct an investigation into the use of FHMC.

NBSO, in its reply, proposed that the following paragraph be included in Schedule 4 of the OATT:

"Energy Imbalance Service will be settled between the Transmission Provider and the party responsible for the relevant transaction using the hourly marginal cost to the Transmission Provider of re-dispatch. The Transmission Provider's hourly marginal cost of re-dispatch is the marginal re-dispatch price submitted by a market participant."

NBSO stated that it is their duty to take the lowest priced re dispatch energy submitted into the New Brunswick market by a market participant. The Board agrees with NBSO and to make this point perfectly clear the Board approves the following paragraph for inclusion in Schedule 4 of the OATT:

“Energy Imbalance Service will be settled between the Transmission Provider and the party responsible for the relevant transaction using the hourly marginal cost to the Transmission Provider of re-dispatch. The Transmission Provider’s hourly marginal cost of re-dispatch is the lowest marginal re-dispatch price that has been submitted to the Transmission Provider for the relevant hour.”

NBSO stated that use of the decremental approach to establish the hourly marginal cost rather than the incremental approach as proposed by the PI is preferable because the legacy systems use the decremental approach and the incremental approach may, in some circumstances, lead to higher pricing. There was no evidence that there would be a significant difference in price between the two methods. The Board will therefore approve the use of the decremental approach for the reasons given by NBSO.

NBSO submitted that the other issues raised are matters of OATT and Market Rule administration and peripheral to the application. The Board considers that the issues address important aspects of the pricing of energy imbalance services and will comment on them in this decision.

Regarding market monitoring, NBSO has established a Market Assessment Unit and is working with Board staff to develop information and evaluation criteria that will assist NBSO and the Board in meeting their respective obligations. The Board intends to make public as much of this information as is possible. The Board welcomes recommendations from any party as to specific information and/or evaluation criteria that should be developed.

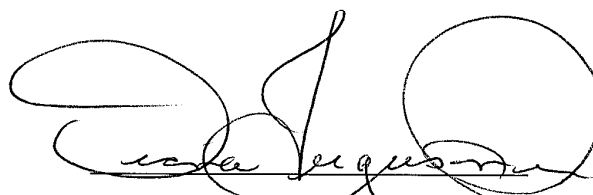
NBSO stated that, given the early stage of market development, it is premature to establish rigid criteria for deviation bandwidth, for determining when inappropriate behaviour has occurred or for what sanctions, if any, should be applied. The Board agrees with NBSO that rigid criteria are not appropriate at this time. However, the Board considers that appropriate market monitoring and discipline are essential for the development of a competitive market. The Board intends to revisit the issues of deviation bandwidth and time-sensitive pricing at a later date when more information is available.

The Board encourages all parties to take an active role in monitoring the market and to report any concerns that they might have to the Board.

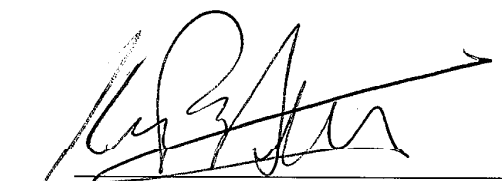
Dated at the City of Saint John on the 14<sup>th</sup> day of February, 2006.



J.A. Dumont, Commissioner



D. Ferguson Sonier, Commissioner



K.S. Sollows, Commissioner