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Canada

January 14, 2011

Ruppas Minhas
Alberta Electric System Operator
2500, 330 – 5th Avenue SW
Calgary, AB T2P 0L4

Dear Ms. Minhas:

Re: Supply Surplus Recommendation Paper

In response to the AESO's Supply Surplus Recommendation Paper dated December 2, 2010, Capital Power is pleased to provide the following feedback on the AESO's recommendations for updating the supply surplus rule and procedures.

We are supportive of the AESO's recommendations to remove the current exemptions of wind and cogeneration facilities, update the definition of minimum stable generation (to ensure these limits are not being misused to reflect financial or economic limits), allow exports within the T-2 window, and solicit voluntary generator curtailment requests. We believe all of these steps are fair and reasonable. When combined with actions to address the participation requirements of wind generation, these recommendations should be effective solutions to address supply surplus situations.

Capital Power would also like to following comments on a number of other related topics raised in the AESO's discussion and recommendation papers:

Shortening the T-2 window - Capital Power asks the AESO to conduct a broader review of the limitation on restatements within T-2. We provided comments on this point in our comments to the Supply Surplus Discussion Paper in May, 2010. The T-2 rule needs to be reviewed to determine if the intended benefits in terms of supply visibility and pool price stability outweigh the loss to market responsiveness and efficiency as a result of the requirement. The recommendation to allow exports within T-2 reintroduces this market responsiveness but only in supply surplus situations and only for exports. The impacts of T-2 to price formation, competitive response, and market efficiency deserve a fulsome review that may identify other issues that could be avoided or mitigated by a shorter restatement window.

Voluntary Generator Curtailment Program – Capital Power is not supportive of the Voluntary Generator Curtailment Program (VGCP). We understand that the AESO is not recommending to implement VGCP at this time and will engage in stakeholder consultation process if it chooses to revisit VGCP. As we outlined in our comments to the discussion paper, we view VGCP as a different program than the Dispatch Down Service (DDS) but we

view the compensation mechanism as the similar. DDS dispatches offset the impact of compensated for Transmission Must Run generation and enable the reconstitution of price. In contrast, the VGCP dispatches would just compensate a participant for curtailing generation. It's unclear to Capital Power why VGCP is being proposed when the AESO has resisted similar proposals (e.g. constrained down payments) in other stakeholder consultations such as transmission constraints management. More generally, we continue to hold the view that the DDS pricing mechanism leaves a lot to be desired.

Furthermore, we foresee many problems with the design of the VGCP that would make it an poor long term solution. Firstly, by design of the program favours the participation of dispatchable generation (e.g. natural gas generation) while less flexible generation (e.g. cogeneration, must run coal) would be required to pay the cost of the program. In effect, this mechanism enables a wealth transfer from less flexible to more dispatchable generation. Secondly, the generators that do remain online may face VGCP costs that are not reflective of their willingness to curtail their generation. The design of the program coupled with the constraining characteristics of a generating units (i.e. long lead time units) would mean that the generators, to which the costs of VGCP are allocated, may be precluded from participating in VGCP and would therefore have limited ability to influence/control VGCP price/costs through competition. Thirdly, the program may provide VGCP participants a perverse incentive not to respond to prospective supply surplus situation. Because VGCP participants are only compensated for curtailing generation when the supply surplus rule is invoked, they are provided an incentive not to curtail until VGCP is activated. Similar types of issues plague the design of DDS.

Should the AESO choose to revisit VGCP, we ask that the AESO to include other alternatives such as negative pricing in the stakeholder consultation. We would also ask that whether the mechanism be VGCP or negative pricing that it is a last resort step and that participation is limited to generators running at minimum stable generation levels. Furthermore, any changes that would lower the current price floor of \$0/MWh should be accompanied by an upward adjustment to the price cap. If the AESO seeks to implement either longer term solution, we would ask that the price cap also be adjusted upward to ensure that there is symmetry in the AESO's rule changes (e.g. no skewing/biasing of price ranges).

AESO Price Forecasting – The AESO has recommended providing a pool price forecast six hours ahead as an indicator of a prospective supply surplus event. We ask the AESO to provide stakeholders the details/calculations of the price forecasting methodology it intends to apply for supply surplus rule. It is important for stakeholders to understand this methodology in order to reconcile the AESO's short-term price forecasts with their own confidential, internal price views and expectations.

The AESO has no obligation, nor should it, in providing an accurate price forecast. But given that the long term solutions such as VGCP or negative pricing could result in costly actions being taken in the market participants or by the AESO, the accuracy of price forecast trigger for the supply surplus rule becomes more important. If the AESO revisits these types of solutions, we ask the AESO to engage in a stakeholder consultation on its price forecasting methodology to ensure that the supply surplus rule is not invoked unnecessarily. Given that the AESO current recommendations fall short of these long term solutions simply providing the AESO price forecasting methodology should suffice.

As a final point, we ask the AESO to also revisit Supply Shortfall procedures for changes that can

ensure the there is symmetry with the Supply Surplus rule. These revisions should be reflected in changes to OPP 803 and 103.

If you wish to discuss Capital Power's comments further or need any other assistance, please contact me directly at (403) 717-4639 or by email at jgtaylor@capitalpower.com

Sincerely,
<Unsigned>

Janene Taylor
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Capital Power Corporation