



June 18, 2009

Dear Stakeholders:

Re: Market Roadmap Update Comments

The AESO has received and reviewed the comments provided by industry on the Market Roadmap update provided on April 17 and would like to thank all stakeholders for their feedback. The comments are posted to the website at <http://www.aeso.ca/market/14519.html>. The AESO uses the input to assess the direction and timing for market design initiatives for the coming years and will reflect any changes that have been made in the next version of the update.

In response to the feedback provided, the AESO would like to address several issues that were raised either as priorities or as items that should be added to the market roadmap. This letter will provide some general context to the comments raised and our thinking on these matters at this time.

Price Fidelity

Numerous participants raised improving price fidelity as the most important issue in the market today. Dispatch down service, or DDS, was most frequently identified as the primary concern with respect to price fidelity. It was suggested that the design of the DDS market does not accurately reconstitute the price and that the DDS reference price creates 'stickiness' in the price.

It has been suggested that DDS encourages generators to alter their energy market offers in order to be in merit and therefore able to make DDS offers. In effect, this does not allow the price to be fully reconstituted because incremental energy enters the market at a lower price than would occur absent the DDS payments.

The second concern, price stickiness, is associated with the DDS Reference Price, which is set monthly at a heat rate of 12.5 GJ/MWh. Stakeholders highlighted the MSA's analysis that power prices settle very near the reference price in more hours than would be expected. Stakeholders suggest that this stickiness interferes with the market and reduces price fidelity.

The AESO recognizes that the market response to the DDS product has changed offer behaviour for some market participants, an issue that was contemplated before the implementation of DDS, and that these actions may have reduced the impact of price reconstitution. Further, the AESO recognizes that there continue to be parties that want to explore the use of DDS or some suitable alternative for expanded purposes such as congestion management. Given the apparent interest in the topic expressed by stakeholders, the AESO will further consider whether a review of DDS design and usage is appropriate at this time and in concert with other market design priorities.

It was also suggested that TMR should be dealt with via a new mechanism of constrained on and constrained off payments outside of the merit order rather than the current design in order to protect the price signal. The AESO's view on constrained down payments has not changed, and our position is that the AUC's Transmission Constraints Management (TCM) decision supports the view that constrained down payments are not required to promote the FEOC market. Constrained on payments and constrained down payments represent a significant departure from the current market model that is outside the intended scope of the market roadmap. Movement in this direction would lead to a structural market design change that may introduce an increment/decrement market.¹ Further consideration is required on this topic as it is a substantial change.

Supply surplus conditions and dispatching competing \$0 offers was also raised. The AESO is committed to consulting on supply surplus or dispatching equal priced offers with industry and will use the Wind Working Group recommendations as input to that process. The AESO recognizes that supply surplus conditions impact the entire market and are not limited to wind management situations. The consultation will address longer term and possible interim solutions to address supply surplus to ensure that the AESO is able to manage the resulting market and operational issues as they arise. The normal consultation process will be followed to ensure a thorough discussion, and this discussion is a priority item in its own right that is not fully reflected in the roadmap.

Comments also suggested that moving forward on allowing imports to set the price is an important element of price fidelity. The AESO is moving forward with this initiative as part of its work on intertie business practices and recognizes it as a priority item. Changes to the AESO IT systems expected to be in place by year end 2009 will facilitate and support dispatchable interties and new intertie business practices.

Transmission Access

Transmission access was mentioned as a concern with respect to the congestion management rule, RAS business practices, physical interconnection processes and restoring the intertie capacity.

The AUC released the Transmission Constraints Management (TCM) decision in April, and the AESO was directed to change portions of the rule. The AESO will consult with

¹ Increment/decrement markets pay participants to produce more or less than their schedule, which in the case of Alberta would imply an increment/decrement market to deviate from the schedule determined by the unconstrained merit order.

stakeholders on the issues identified by the AUC and a revised TCM rule will be filed upon the conclusion of the consultation process. Finalizing the TCM rule and updating all the OPPs impacted by the rule is a key focus for the AESO and remains a high priority item.

In addition to the TCM rule, the AESO is in the process of initiating the consultation process on Remedial Action Scheme or RAS practices, and this work is expected to continue through 2009. The development of these rules will occur in coordination with the TCM rule.

Stakeholders also identified the AESO physical interconnection process as an issue. The length of time to complete an interconnection is a concern that the AESO shares and the comments are noted. An interconnection process review does not fall within the intended scope of the market roadmap, which is primarily a market design template. Nonetheless, the AESO recognizes that efficiently connecting loads and generators to the grid is vital to the success of the market and the comments were forwarded to the AESO team working on interconnection process re-design. The AESO is holding a stakeholder session on interconnection process re-design on June 22.

Restoring the capacity of the interconnections is an area of focus for the AESO. Demand response products are currently being explored to allow import ATC on the BC tie line to be increased. The AESO has also initiated work on its intertie business practices to explore firm import and export service.

Market Design

Several stakeholders raised concerns about aspects of the market design, both in terms of the energy market and secondary markets.

The pricing mechanism was identified as an issue that may be harming the development of the Alberta market. A number of issues were related to the existing pricing mechanism including \$0 offers, the price cap, intertie pricing and wind integration. It was suggested that alternative pricing mechanisms should be explored, and in particular pricing design should take the design in neighboring markets into account. Introducing a physical bilateral market within Alberta was also suggested.

Altering the pricing mechanism and general market design is beyond the scope of the market roadmap. The roadmap is intended as a set of incremental market enhancements to be undertaken within the current high level structure. The AESO will not pursue a wholesale market redesign within the context of the market roadmap discussion. Nonetheless, the AESO is working with industry on some targeted price fidelity issues including an examination of the Price Cap, supply surplus (or price floor) discussions and an ongoing assessment of various uplift charges.

The 1 hour settlement interval was noted as a market design concern that had an impact on price fidelity. The AESO is willing to explore decreasing the settlement interval from the current 1 hour. There are potential benefits in price fidelity, decreasing payments to suppliers on the margin and increasing price certainty for price responsive loads. Given

that reducing the settlement interval would require significant IT infrastructure, this work is best explored as part of the Market Systems Visioning project.

The wind MOF was highlighted as an area of concern in that it utilizes pro-rata curtailments and directives to ensure reliability. It was suggested that market based services such as DDS and expanded reserves should be used to manage wind power. The AESO acknowledges this comment and as noted above, consultation is ongoing.

Market suspension was identified both as a high and low priority project by stakeholders. The AESO is committed to updating the market suspension rules to reflect the current market state, but does not anticipate frequent suspensions. Consultation on this project will commence shortly and the AESO will rely on feedback through that process to conduct a more fulsome plan.

Finally, the Transition of Authoritative Documents (TOAD) project was noted as a significant project missing from the market roadmap. The AESO acknowledges TOAD as a large project with high priority that should be reflected in the roadmap.

Thank you for your comments. The AESO will continue to work with industry to determine priorities for the wholesale market design work.

Yours truly,

“original signed by”

Cheryl L. Terry
Vice-President, Market Services (Interim)

cc: Cliff Monar, SVP Market & Regulatory Services