



Via e-mail

April 12<sup>th</sup>, 2006

Wes Green  
Director, Market Services  
AESO  
2500, 330 – 5<sup>th</sup> Ave. S.W.  
Calgary, AB  
T2P 0L4

Dear Mr. Green,

**RE: ADC Comments on Reference Price for TMR Reconstitution**

Thank you for the opportunity to comment on the AESO's proposed rule changes respecting the TMR reference price. The following comments and questions are posed in regards to the reference price, the permanence of TMR and monitoring and review, post implementation.

*The reference price is the mechanism to determine where the unit would have been placed into the energy market merit order (as opposed to having the energy being offered in at zero).*

The current proposal is that the reference price would account for the variable operating costs which would be in the range of 10 to 15 times the value of natural gas on a typical day. TMR providers also typically receive out of market compensation for both their fixed and variable costs. In many cases, the unit providers of TMR are inefficient units that would most likely be priced out of the energy market and decommissioned without the support of the TMR payment.

Since these units are buoyed by regulated cost support, they show up in the supply stack when economics would otherwise dictate an exit from the market. By modeling the reference price off of the average heat rate of these uneconomic units, inefficiency will be priced into the energy market. Use of the inefficient heat rates will raise the pool price to a level that would not be realized in a market free of transmission constraints. Government policy reads: "It therefore recommends that the calculation of the Pool price be modified to make the Pool price neutral of certain TMR services".<sup>1</sup> The use of a 10-15 heat rate as a reference price will interfere with Pool price setting, rendering an outcome that is far from neutral. The ADC believes that the 10-15 heat rate range is far too high and pricing at these levels is significantly above the market. For example, Cloverbar (an 11 heat rate unit) was not economic in the energy market and was decommissioned. With sufficient transmission, the uneconomic TMR dispatches would not occur and TMR generation would be replaced with more efficient units on the system. The reference price should reflect the efficiency of units that would replace the TMR units.

It is our aim to ensure that price fidelity will be achieved, being cognizant of fairness. In the absence of transmission constraints, generation would not compete with zero priced constrained on energy in the energy market and load would not pay for inefficient units to provide an expensive transmission substitute. It is our recommendation that a heat rate be used of a plant that would

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<sup>1</sup> ALBERTA'S ELECTRICITY POLICY FRAMEWORK: Competitive – Reliable – Sustainable, June 6, 2005, Page 4 of 51

replace the current TMR units under full competition (where the plant is not subsidized with the AESO TMR payment). In this manner, generators would be competing against a probable proxy generator with economics to succeed in the energy market and load would not realize the inefficiencies of the TMR units once through regulated transmission payments and again in the energy market.

The use of the variable cost of a replacement plant would vary between plant types depending upon the energy market situation. For example, in on-peak periods, the variable cost of an efficient (i.e. 6.5 heat rate unit) combined cycle generator would be used whereas in off-peak periods, the average variable cost of the coal stack. This would vary with seasonality.

We would be happy to further discuss our thoughts on this.

*Could the AESO provide certainty that all TMR is temporary? And if so, when can we expect TMR to disappear?*

It is our understanding that with the transmission development planned in the coming years that the majority of transmission constraints will be relieved eliminating the need for TMR. It is also our understanding that only temporary TMR will trigger a reconstitution in the energy market. We would like to ensure that reconstitutions will only occur when TMR is considered a temporary solution. What comfort can the AESO give load customers that the transmission that is forecast to be built will not only take place, but will remove constraints eliminating all or the majority of the TMR payments within the next 3 to 5 years?

*Review and monitoring*

We would like to recommend that the AESO formalize a plan (perhaps in concert with the MSA) to review and monitor the energy market within 6 months from the implementation of the Quick Hits rules. Included in that plan should be reasonability assessment of pool price movements. For example, with rules implementation, would fundamentals support a pool price increase of \$10, \$20, \$50?

Yours truly,

*Original signed*

Carrie Haines  
Valeo Power  
On Behalf of Alberta Direct Connect Consumer Association