



Via e-mail

December 20th, 2006

Colleen Fairhead
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Dear Colleen,

RE: ADC Comments on Phase 1 Policy Implementation – Alternatives to Quick Hits

Thank you for the opportunity to comment on the AESO's proposed alternatives to the Quick Hits. We appreciate the time that Doug Simpson took to present to our membership the alternatives the AESO is recommending.

The ADC is supportive of moving ahead with the rule changes that were previously approved and can be implemented without the Transmission Regulation change as expeditiously as possible. Our recommendation would be to implement the T-2, must offer/must comply, and payments to suppliers on the margin in Q1 of 2007. The ADC does not want the rule implementation to be further delayed in the event the TMR or Import recommendations can not be agreed upon or take longer than a few months to implement.

The ADC is also supportive of the AESO's recommendations for dealing with TMR and Imports, however, we have a few comments that we hope the AESO will give serious consideration in determining the TMR reference price.

The ADC had submitted the following comments in April, and resubmit for your consideration:

“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”.¹ 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

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

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 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.”

Further to this, we support the AESO having the TMR reference price be set randomly in a reasonable range so that it is not obvious to the market what it is, i.e. Heat rate of 6 – 8 for on-peak periods.

Access to Information:

As part of the implementation, the ADC recommends that the AESO publish the hours where the TMR dispatch down service was utilized and the impact to pool price for those hours.

Please call with any questions or further clarification.

Yours truly,

Original signed

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On Behalf of Alberta Direct Connect Consumer Association (ADC)