

December 20, 2006

Delivered via email

Market Services  
Alberta Electric System Operator  
2500, 330 – 5<sup>th</sup> Ave. S.W.  
Calgary, AB T2P 0L4

**Attention: Ms. Colleen Fairhead**

Dear Ms. Fairhead:

**Re: AltaGas's Comments on ISO "Alternatives to Quick Hits" Proposal ("the Alternatives Proposal")**

AltaGas Ltd. (AltaGas) has had an opportunity to review the Alternatives Proposal forwarded under cover of Mr. McDuffie's letter of November 29, 2006. AltaGas would like to extend its thanks to the AESO for its initiative in developing an alternative to the as-yet unpromulgated changes to the Transmission Regulation. We generally support the AESO's Alternatives Proposal, subject to the concerns discussed below,

AltaGas's Concerns

AltaGas's concerns fall into 3 categories:

1. Continued distortion of Pool Price
2. Failure to address price impact of imports
3. Consistency with Regulation and Government Policy

The concerns are discussed in turn below:

**1. Continued distortion of Pool Price**

The Alternatives Proposal contemplates that the costs of Dispatch Down Service ("DDS") are allocated to suppliers by metered volumes to achieve a financial pro rata. AltaGas is concerned that this allows TMR Energy to continue to have a price-distorting effect. Government Policy states that "*Fidelity of Pool price is important and TMR rules and practices should preserve price fidelity and minimize any undue interference in the energy market*". To the extent that the cost of DDA is borne by suppliers, there is arguably a continued, albeit smaller, impact on Pool Price as a result of TMR energy being called on. To minimize Pool Price impacts, these costs should be incorporated in the ISO tariff and charged to load like any other ancillary service.



## 2. Failure to address price impact of imports

AltaGas appreciates the difficulties faced by the AESO in designing a mechanism to mitigate the price impact of Imports being priced at \$0, particularly in the face of Government policy which requires “*to the extent possible, imports are to be treated the same as intra Alberta generators*”<sup>1</sup> We were encouraged by the discussion at the ISO Workshop on December 14, 2006 with respect to developing protocols to permit the intertie with British Columbia to become dispatchable. At the meeting the AESO presented an alternative similar to that being recommended for TMR volumes but expressed the concern that that mechanism would not work for import volumes because the offer blocks are so large. We would ask that the ISO reconsider this, as the bidding behaviour of importers may change to look more like that of intra-Alberta generators, if importers are allowed to set price, in that they may well bid in smaller increments, much like intra-Alberta generators.

We encourage the ISO to continue to work diligently to develop a mechanism by which the current price-distorting effects of imports can be mitigated or eliminated. In our view, the Alberta Government policy cannot be viewed as being fully implemented in the absence of such a mechanism.

## 3. Consistency with Regulation and Government Policy

While the Alternatives Proposal reduces the price-distorting effects of TMR within the letter of ss. 9(b) and (c) of the *Transmission Regulation*, AR 174/2004, AltaGas continues to believe that those sections of the Transmission Regulation should be repealed. AltaGas appreciates that the current Government policy is that the Pool Price should be reconstituted by the AESO to eliminate the price-distorting effects of TMR,<sup>2</sup> our preference is still to remove those sections from the Regulation to eliminate any uncertainty about Government policy. While those sections remain in the *Transmission Regulation*, there is an arguable inconsistency between published Government Policy and Government Regulation, which is not conducive to market confidence.

We do have other concerns that are probably best addressed at the Rules stage of the AESO’s process. Of particular concern to us is the manner in which flexible blocks will be treated under the AESO’s recommended approach.

<sup>1</sup> The Alberta Government Policy Paper entitled “Alberta’s Electricity Policy Framework: Competitive – Reliable – Sustainable”, page 39.

<sup>2</sup> “Alberta’s Electricity Policy Framework: Competitive – Reliable – Sustainable” states at page 38: “Fidelity of Pool price is important and TMR rules and practices should preserve price fidelity and minimize any undue interference in the energy market.”

and directed the ISO to, among other things,

“Create processes to address the following:

- TMR impact on Pool price and appropriate methodology for reconstitution
- Dispatch of TMR units in the energy market”

I would be happy to discuss our comments with you at your convenience. I can be contacted at (403) 269-5720 or by e-mail at "lynn.meyer@altagas.ca".

Yours truly,

**AltaGas Ltd.**



Lynn Meyer  
Director, Regulatory

Cc: Kellan Fluckiger, Department of Energy