



8th Flr. 505 – 2nd St SW
Calgary, AB T2P 1N8
Canada

July 17, 2009

Alberta Electric System Operator
2500, 330 – 5th Avenue S.W.
Calgary AB T2P 0L4

Attention: Kris Aksomitis, Market Design Specialist

Dear: Mr. Aksomitis

RE: Price Cap Discussion Paper

Capital Power welcomes the opportunity to provide comments on the AESO Price Cap Discussion Paper (“the Discussion Paper”) and is pleased that the Alberta Electric System Operator (“AESO”) is examining the appropriateness of the current \$1000 price cap. The AESO analysis clearly demonstrates the importance of scarcity pricing in Alberta and highlights the relationship between the price cap and the investment signal. Capital Power believes that the price cap is an important issue for Alberta’s energy only market and should be the subject of regular reviews. Capital Power is pleased to see the AESO undertake to provide historical performance metrics measuring the impact of the price cap on the market. Capital Power is inclined to agree that the price cap does not appear to have systematically interfered with price outcomes or investment signals in the past; however, Capital Power has some significant concerns with the AESO’s analysis and justification of its recommendation to maintain the price cap at the current level.

The AESO is mandated to operate and facilitate a market where the fundamentals of supply and demand determine the price of electricity. Any issues pertaining to price fidelity should be a top priority for the AESO, including whether or not the price cap continues to be appropriate. The information provided in this paper is insufficient to make any determinations about the appropriate level of the price cap in future years. In order to properly assess the appropriateness of the price cap in both the near and longer term it is necessary to consider future costs of investment and fuel, as well as future price expectations. The price cap should be based on the fundamentals particular to Alberta such as the cost of new entry or the value load places on the loss of electric service. Furthermore, a number of the AESO conclusions are flawed, most significantly those around generator investment and demand participation.

- Utilizing 2008 as a reference year to conclude that generator returns are at healthy levels is misleading. It is not appropriate to use the most expensive year in recent history as the benchmark, particularly when the primary drivers of the price level in 2008 were KEG related transmission upgrades, events that will not likely occur again in the near term.
- Capital Power does not believe the AESO analysis on demand participation is particularly helpful in determining the impact of the price cap on price responsive load. The loads tracked by the AESO have specific characteristics that are not common to the majority of the load in the province. More than likely much higher prices would be required in order to incent active participation from other types of load.
- Furthermore, the AESO should endeavor to determine the volume of load in the Province that has entered into competitive contracts in order to fully measure the impact of the price cap on demand participation. In both Australia and Texas there are exceptionally high levels of load participation in the forward markets; in both cases, over 90% of load has contracted bilaterally. The incentive for load to enter into these types of contracts is highly correlated to the exposure they face in the spot market.



8th Flr. 505 – 2nd St SW
Calgary, AB T2P 1N8
Canada

The AESO, in concert with market participants, needs to develop a process and criteria for evaluating the price cap on an annual basis to ensure that the investment signal is accurate, and that it continually reflects the fundamentals unique to Alberta. The AESO should undertake a forward looking analysis, rather than simply concluding that the price cap is appropriate because it hasn't impeded the development of the market in the past. I would be more than happy to discuss these comments with you at your convenience. I can be reached by telephone at (403) 717-4639 or by e-mail at jgtaylor@capitalpower.com.

Yours truly,

<Original signed by>

Janene Taylor
Senior Advisor, Regulatory
Capital Power Corporation