

AESO Recommendation Paper - Operating Reserve Market  
Redesign  
Stakeholder Comment Matrix

**Stakeholder Comment Matrix**  
**Supply Surplus Discussion Paper**

**Date of request for comment:** May 20, 2010

**Period of consultation:** April 29, 2010 – May 20, 2010

**Stakeholder:** Capital Power Corporation

Section	Subsection	Stakeholder Response
2.0 Purpose 3.0 Introduction		
4.0 Supply Surplus Principles	<ul style="list-style-type: none"> <li>Are there any principles listed that should not be included? Please include reasons why.</li> </ul>	<p>Currently the ISO has three papers out for consultation with three different sets of principles. We recommend that the ISO endeavor to create a consistent set of high-level principles that are used to assess potential market solutions or market rules. The high-level principles should be general enough that they can be applied to different policy issues in different contexts and that can be used as the basis for future pieces of work.</p>

	<p>c) Impact on neighboring jurisdictions should be minimal</p> <p>f) Supply Surplus rule changes must balance design complexity and implementation simplicity</p>	<p>Minimizing the impact on neighboring jurisdictions is not an appropriate principle for evaluating market rules in Alberta. Rather a principle that captures the much broader objective, to ensure the safe and reliable operation of the bulk electric system, should be adopted. We recommend the following wording: c) <b>Any potential suite of market rules must ensure the safe and reliable operation of the bulk electric system.</b></p> <p>Capital Power recognizes that the ISO faces IT limitations and challenges but encourages the ISO to make continuous improvements to the IT system such that most appropriate market solutions can be implemented. Limitations of the ISO's current IT system in and of themselves should not dictate the market design and solutions that are pursued.</p>
<b>5.0 Supply Surplus</b>	<b>5.1 Historical Analysis</b>	
<b>Conditions – contributing factors</b>	<p><b>5.2 Upcoming Considerations</b></p> <ul style="list-style-type: none"> <li>Are there any other factors that are not mentioned or considered in the paper that may contribute to or exacerbate supply surplus conditions? Please include reasons why.</li> </ul>	<p>The ISO analysis suggests that 51% of the capacity offered at \$0 is considered dispatchable, that is, the volume offered at \$0 exceeds the declared minimum stable generation levels (MSG). Furthermore, the ISO has indicated that the dispatchable capacity offered at \$0 would be enough to manage supply surplus conditions. The ISO analysis does not attempt to ascertain why market participants are incented to offer such large volumes of dispatchable generation at \$0. It is difficult to assess the appropriateness of the supply surplus solutions proposed, or if the current definition of MSG is robust enough to reflect all physical constraints that force market participants to offer volume at \$0, without understanding why market participants are offering such large volumes of apparently dispatchable capacity at \$0. The ISO's first priority should be a review of the market rules that potentially create incentives for market participants to offer</p>

		dispatchable capacity at \$0. This information is necessary since ultimately solutions implemented to contend with supply surplus events should be closely linked to the known causes.
<b>6.0 Current Supply Surplus Rules</b>	<b>6.1 Market Participation Rules</b> <ul style="list-style-type: none"> <li>• Please provide comments on the rule assessment.</li> <li>• Rule 6.3.4 Equal Price Offers or Bids</li>   <li>• Rule 6.3.8 Supply Surplus Directive</li> </ul>	<p>Capital Power agrees that it is necessary to define criteria to be used for prioritizing equal dollar offers. The current rule refers to applicable constraints that are considered by the system controller when assessing which offer to dispatch, however, these constraints are not defined in the rule. The rule should be redrafted such that it clearly defines the criteria that the system controller will consider. Furthermore, the current rule indicates that the offers will be dispatched in a manner determined appropriate by the ISO. The rule should be redrafted such that the process and procedure that the ISO will follow is clearly articulated and transparent to the market.</p> <p>We agree with the ISO's assessment that the rule should be updated to include the procedures that will be applied when issuing a supply surplus directive and that there should be one rule that contains all relevant information.</p>
	<b>6.2 Operating Policies and Procedures</b> <ul style="list-style-type: none"> <li>• Please provide comments on the rule assessment.</li> </ul>	<p>We agree with the ISO's assessment that the rule should be updated to include the procedures that will be applied when issuing a supply surplus directive and that there should be one rule that contains all information pertaining to supply surplus. Once the procedures have been defined they should reside in an ISO rule and the rule should be drafted in accordance with the ISO TOAD principles.</p>
<b>7.0 Supply Surplus Workgroup</b>		

<b>results</b>		
<b>8.0 Comments on MOF Recommendation paper for Wind</b>		
<b>8.1 Minimum Operating Level and Minimum Stable Generation</b>	<ul style="list-style-type: none"> <li>Is it appropriate to implement MOL when we already have MSG? Please provide reasons why or why not.</li> <li>Please provide comments on possible modifications to the existing MSG definition and its' application.</li> </ul>	<p>Although the ISO has suggested that minimum operating limit (MOL) is not an economic limit, the Supply Surplus Protocol Work Group Recommendation Paper identified a number of examples that were in fact economic limits. The examples provided included hydro facilities that must either pass water through the generators or waste it and contractual provisions that specify a particular level of output. In either case there is no physical risk to the facility for reducing output; rather there is a financial incentive to produce at a higher level. Economic incentives should not preclude units from being curtailed to MSG in a supply surplus event. Therefore, it appears unnecessary to create a MOL. If however, these economic MOLs are currently being characterized as MSG, it may be necessary to create a separate category to differentiate economic limits from physical limits. However, during supply surplus conditions all generators generating above the physical operating limit (MSG) should be eligible for curtailments.</p> <p>As indicated in our comments above in order to determine if the current definition of MSG is robust enough to capture operational considerations that force market participants to offer volume at \$0 we require more information from the ISO as to why market participants are in fact offering such a large portion of dispatchable capacity at \$0.</p>
<b>9.0 Supply Surplus Rule Options</b>		
<b>9.1 Long</b>		

Term Options		
	<b>9.1.1 Market rules for wind generation</b>	<p>Capital Power agrees that wind volumes should be included in the merit order and that the ISO rules should treat all generators fairly and consistently regardless of their fuel type. Capital Power looks forward to participating in the ISO's consultation on the wind integration program and sees this as an integral step in dealing with supply surplus issues.</p>
	<b>9.1.2 Voluntary Generator Curtailment Program (VGCP)</b>	<p>It is not clear how the Voluntary Generator Curtailment Program (VGCP); a solution where generators submit offers to curtail for a price is different from the Dispatch Down Service (DDS) product that was designed to offset the impacts of Transmission Must Run (TMR).</p> <p>Capital Power has raised numerous issues related to the current implementation of the DDS market and the adverse impacts that DDS (and the Reference Price) is having on price fidelity. It is inappropriate to take DDS offers from the lowest priced energy block since the most competitive DDS provider is the in merit unit with the highest variable costs (or the lowest opportunity costs). As a result, by taking DDS offers from the lowest priced offer block (\$0) the ISO creates an incentive for potential DDS providers, units with the highest marginal costs, to price their entire DDS offer volume (in addition to their MSG volumes) at \$0, thus exacerbating conditions that contribute to supply surplus events. Given that DDS is a contributing factor to supply surplus it does not seem practical that a Voluntary Generator Curtailment Program (DDS) be recommended as a solution. Until such time the ISO is prepared to address the issues associated with DDS, Capital Power will not support DDS or VGCP as a market solution to any energy market issues.</p>

		<p>Furthermore, the adoption of VGCP may create perverse incentives for market participants to offer even more volume at \$0 in order to get paid for curtailing, rather than curtailing in response to prices greater than \$0 that would be considered uneconomic for them to generate at.</p>
	<p><b>9.1.3 Negative Prices</b></p>	<p>Capital Power shares the ISO's concerns regarding the use of negative pricing in a wholesale market for electricity that relies solely on investor response to the Pool Price. Unless we can be certain that all investors are responding solely to Alberta's energy-only price signal when making decisions about investing in potential projects, allowing the price to be negative could create significant long term adequacy issues and therefore at this time we do not support this option.</p> <p>We are supportive of the ISO's efforts to focus on the market rules that contribute to supply surplus conditions, such as the treatment of wind generation and we encourage the ISO to focus on the incentives that market participants have to offer large volumes of dispatchable capacity at \$0.</p>
<p><b>9.2 Short Term Options</b></p>	<ul style="list-style-type: none"> <li>The paper provides an example of a supply surplus management procedure within this section. Please provide comments on suggested order of the procedure.</li> </ul>	
	<p><b>No exemption for wind generators under OPP 103</b>  Are there any points that the AESO has not considered within it's assessment in Table 3?</p>	<p>Capital Power agrees that wind power facilities should not be exempt from the supply surplus management procedure. In addition there is no physical reason for the MSG of a wind power facility to be set at any value greater than zero.</p>

		Furthermore, the supply surplus management procedure should ensure that wind generation is dispatched off prior to controllable energy, or energy that is subject to a must offer/must comply obligation. In order to maintain the safe and reliable operation of the electric system the ISO should not dispatch off controllable and reliable generation in favor of intermittent resources that do not contribute to reliability.
	<p><b>No exemption for co-generators under OPP 103</b></p> <ul style="list-style-type: none"> <li>Are there any points that the AESO has not considered within it's assessment in Table 3?</li> </ul>	Capital Power agrees that there should not be a blanket exemption for co-generators.
	<p><b>Voluntary Generator Curtailment Request</b></p> <ul style="list-style-type: none"> <li>If VGCR is implemented, and included as a step in the supply surplus procedures, please provide comments on whether participants would respond to such a request.</li> </ul>	Please see comments below (Exports within T-2)
	<p><b>Exports within T-2</b></p> <ul style="list-style-type: none"> <li>Are there any points that the AESO has not considered within it's assessment in Table 3?</li> <li>If exports were permitted within the current hour or within T-2 under supply surplus protocols, please provide comments on whether participants could use this service during such times.</li> </ul>	<p>Capital Power understands that the Quick Hits were consulted and implemented as a package that package included a number of merit order stabilizers. These merit order stabilizers such as; Must Offer, Must Comply and limitations on restatements within T-2, were intended to increase visibility of supply and the stability of the pool price. However, market rules that potentially negatively impact the market's ability to respond competitively to changes in fundamentals should be carefully reviewed.</p> <p>Has the ISO continued to review the impacts of the Quick Hits merit order stabilizers, specifically T-2, to ensure that this change is not having unintended consequences and inadvertently contributing to supply surplus conditions as market participants</p>

		<p>are unable to immediately respond to \$0 prices by reducing generation or by scheduling exports? Although most obvious during supply surplus events, T-2 acts as an impediment to competition and price formation during all settlement intervals.</p> <p>Has the ISO explored whether or not the objectives of merit order stability and reductions in price volatility could be achieved by implementing only the must comply requirements?</p>
<b>10.0 Reporting</b>	<ul style="list-style-type: none"> <li>Please provide comments on the report provisions</li> </ul>	
<b>11.0 Policy</b>		
<b>12.0 Next steps</b>		
<b>Additional</b>		