

Comments of Morgan Stanley Capital Group on AESO Intertie Framework

Morgan Stanley Capital Group appreciates the opportunity to comment on AESO's Recommendation Paper on Intertie Framework. As a recent active participant on the interties, Morgan Stanley feels that it can contribute to the discussion to minimize seams issues with neighboring control areas in order to achieve a fair, open and competitive market for intertie transactions.

ATC Allocation

In the Intertie Framework Recommendation paper, AESO recommends:

“an ATC allocation rule be implemented that arbitrates first by energy price (when dynamic scheduling is implemented), and then by pro-rata curtailment among remaining same price schedule requests. The pro-rata curtailments would be performed at xx:45 to permit for neighbouring jurisdictions to continue to curtail schedules via their transmission rights priority.”

Morgan Stanley has concerns with this recommendation, and feels that in practice it will not result in a fair, open or competitive market on the interties. It is not known with certainty if or when dynamic scheduling will be fully implemented, and even after dynamic implementation, AESO will likely continue to receive \$0 price bids on the interties during high price periods when competition for intertie ATC is high. For these reasons, AESO needs to develop an ATC allocation methodology that is open and fair and yet continues to provide incentive for new merchant transmission investors.

The current recommendation for allocating limited ATC by first permitting neighboring jurisdictions to curtail schedules and then pro-rata curtailments at XX:45 is unworkable for two primary reasons.

1. Requiring E-tag schedules to be submitted prior to any intertie allocation being performed results in a windfall for neighboring transmission providers and in effect a tax on imports / exports for Alberta.
2. Curtailments at XX:45 leave no time for marketers that are curtailed to re-market their energy (on cut imports) or provide replacement supply (for cut exports), resulting in damaged relationships with suppliers/customers and eventually less participation in Alberta markets.

Instead, MSCG recommends a methodology based on the AESO making allocations at T minus 90 minutes. In the sections below, we describe in more detail precisely what the practical problems are with the proposed AESO methodology, and our recommended alternate approach.

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E-Tags the wrong tool for allocating transmission

As MSCG understands the proposed rule, the AESO will accept all E-tags that are submitted on the interties and will leave it to neighboring jurisdictions to curtail schedules via their transmission priority rights. This method does not recognize the costs involved in producing a valid E-tag.

For example, for a marketer that wants to participate in Alberta's market over the BC-Alberta intertie, a marketer needs to procure supply at Mid C (or alternate market), buy transmission on BPA network and buy wheel-through transmission from BCHydro in order to have the E-Tag go implemented by all parties.

The costs to do this transaction are:

Energy Supply:	~ Mid C hourly price
BPA Transmission:	\$4.33 (hourly non-firm rate including sched., control & dispatch) plus 1.9% losses
BCHydro Wheel through:	\$6.40 (\$5.40 undiscounted rate plus \$1 in various fees) plus 6.28% losses

To submit this E-Tag only to have it curtailed late in the hour by BCHydro or AESO results in costs of **\$10.73** for transmission plus any costs the supplier charges for not honoring the Mid C transaction. While the transmission providers in neighboring jurisdictions do not charge losses on energy that doesn't flow, they do not refund the transmission that was purchased to implement the E-tag because according to their rules, the transmission they sold was not curtailed. For example, BCHydro and BPA interpret that a cut schedule going to Alberta using their non-firm transmission should still be charged for the transmission since the curtailment occurred due to an AESO limitation not a BCHydro/BPA transmission limitation. Therefore no refunds are given.

This \$10.73 charge acts like a tax that importers have to pay just for the right to submit a bid in AESO markets and results in a windfall for neighboring transmission providers (when no energy flows).

For any supplier with flexible generation located right beside AESO and sunk firm transmission, the costs of putting in an E-Tag are negligible to none. This gives these suppliers an enormous advantage in participating on the interties due to the current and proposed E-Tag rules and curtailment timelines.

It should be noted that this situation can also arise for any marketer that tries to flow on the new MATL line. In order to get an implemented E-tag on MATL, the marketer will have to procure Northwestern Energy transmission to get to MATL and if the schedule is cut late in the hour, the marketer will still have to pay for the Northwestern transmission.

For these reasons, having an allocation methodology based on implemented E-tags is not fair, open or competitive.

Curtailments at XX:45 are unworkable for marketers

The above costs of putting in an E-tag ignore the costs that late curtailments have on supplier relationships. Getting curtailed at XX:45 leaves no time for intertie participants to re-market any curtailed generation that was destined for Alberta to other markets. This results in opportunity costs for the suppliers that sold to Alberta marketers and eventually manifests itself in damaged relationships or bookout payments for marketers looking to participate in Alberta. Similarly, exports from Alberta that are curtailed late result in damaged relationships with end use customers and potential reliability issues.

Again, any supplier with flexible generation adjacent to Alberta will not incur these costs of late curtailments that marketers sustain. Eventually, these late curtailments result in fewer participants on interties into Alberta, which also leads to less liquidity as marketers lose interest in participating in this market.

AESO should do the Allocation at T-1.5 (90 minutes prior to operating hour)

If the constraint is on the Alberta side, AESO should do the allocation (as per industry standard). This is especially true since there will be several different transmission interties competing for limited import / export space for Alberta. Currently, AESO receives market participant import / export bids at T-2 (120 minutes prior to the operating hour). This leaves ample time for AESO to run an allocation methodology and communicate to participants who have been allocated the right to import / export. This communication to participants should occur by T – 1.5 (90 minutes prior to the operating hour).

By communicating the results of the ATC allocation to participants by T – 1.5, the market participant has ample time to find a source / sink for its schedule and it can procure only the transmission that it needs to implement its schedule. This methodology avoids the \$10.73 fee on Alberta importers/exporters and the windfall to neighboring transmission providers from late curtailments.

Importantly, under this methodology, **AESO must only approve E-tags from those participants that have been awarded an ATC allocation.** This rule is important so participants do not put in E-tags and tie up transmission on neighboring jurisdictions, frustrating transmission release rules and hindering liquidity.

Bids should be limited to the available ATC on each intertie and should identify which intertie the participant intends to import / export on.

Recognition of Merchant Transmission Service (MTS) for Merchant Interties and eventually ATC Allocation Rights on Rate Based Interties

The AESO ATC allocation at T – 1.5 must recognize a Merchant Transmission Service (MTS) as outlined in the recommendation paper, in order to incentivize future merchant transmission builds to/from Alberta.

In order to be fair to existing rate based interties, AESO should also look to auction ATC Allocation Rights (ATCAR) on existing rate based interties. The auction revenues would flow back to Alberta load that has funded the historical cost of these existing interties and will be funding future upgrades on the Alberta side.

Importantly, the total amount of MTS awarded and ATC Allocation Rights auctioned should not exceed the total import / export capability from AESO. A portion of the ATC allocation auction on existing rate based interties could be done annually, with the remainder done monthly so that the total amount of import / export rights can vary to account for known outages etc. in order to optimize the total import / export capability.

It is important to note that MSCG **is not** advocating that only those with MTS or ATC allocation rights be allowed to bid into AESO markets. What we are advocating is that in situations where the total demand for import / export space exceeds the available ATC, AESO do an allocation of the limited space and in performing that allocation, priority should be given to those that hold MTS or ATC Allocation Rights.

Implementation

MSCG recommends that AESO modify their Energy Trading System (ETS) to include a field on the bid where market participants can identify whether they hold MTS or an ATC Allocation Rights.

When doing the ATC allocation at T – 1.5, AESO would give priority to those holding MTS or ATC Allocation Rights when the total amount of bids exceeds available ATC.

MSCG understands that ATC Allocation Rights on existing rate based interties may require additional policy and stakeholder reviews. This may not be feasible for a short term solution. For this reason, MSCG recommends that for the short term a firm transmission OASIS reservation, on an interconnected tie line (that contributes to the import/export limit), be substituted for ATC Allocation Rights until such time that AESO can develop and hold an auction for ATC Allocation Rights on existing rate based interties.

A few examples follow (using publicly available info. on OASIS):

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Over the medium term, it is important that AESO engage stakeholders and develop an ATC Allocation Right auction for existing rate based interties. Aside from resulting in revenues for Alberta ratepayers, it will also discourage neighboring transmission providers from over-selling their firm transmission just to increase the allocation coming from their intertie.

Example 2: All firm OASIS rights holders do not bid to import into AESO

Assume: Total Import ATC into AESO is 600MW for T + 2.
 BC/AESO ATC is 600MW
 MATL ATC is 300MW

Participant	Intertie	Quantity (MW)	MTS or Firm OASIS
B.C.Hydro Power Supply	BC/Alberta	330	FIRM OASIS #####
TransCanada	BC/Alberta	50	FIRM OASIS #####
Northpoint	BC/Alberta	0	
MATL	MATL	100	FIRM OASIS #####
MSCG	BC/Alberta	50	Non-firm
BC Hydro Power Supply	BC/Alberta	50	Non-firm
Marketer A	MATL	25	Non-firm
Marketer B	BC/Alberta	25	Non-firm

Under the above scenario, the total bid in amount for imports at T+2 is 630MW. Of this amount, 480MW of the bids have MTS or ATC rights (in the short term Firm OASIS #'s on neighboring systems can be substituted for ATC rights).

AESO would pro-rata allocate available ATC space on their system first to the MTS or Firm OASIS holders and the remaining space to non-firm transmission bidders. Under the above example, firm bidders would receive 100% of their bid amount and non-firm bidders would receive (600-480=120MW available non-firm space). Total non-firm bids are 150MW, so non-firm space would be allocated to bids pro-rata as 120/150 = 80%

BCHydro Power Supply 330 x 1 = 330 MW
 TransCanada 50 x 1 = 50 MW
 MATL 100 x 1 = 100 MW

NON-FIRM OASIS Bidders:

MSCG 50 x .80 = 40MW
 BCHydro Power Supply 50 x .80 = 40MW
 Marketer A 25 x .80 = 20MW
 Marketer B 25 x .80 = 20MW

Total: 600MW

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In summary, Morgan Stanley feels that an ATC allocation rule based on AESO's allocation at T-1.5 (as outlined above) instead of based on E-tags will result in a more fair, open and competitive market for transactions into and out of Alberta. Over time, this should also lead to broader participation in the markets and additional liquidity benefits.

Thank you for the opportunity to comment. If there are any questions, please feel free to contact Ali Yazdi at 604-658-8112.