



ENMAX Energy Corporation
141 – 50 Avenue SE
Calgary, AB T2G 4S7
Tel (403) 514-3000
enmax.com

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Kent McDuffie
Vice President, Market Services
Alberta Electric System Operator
Calgary Place
2500, 330 - 5th Ave SW
Calgary, AB T2P 0L4

Dear Kent:

ENMAX is encouraged that the AESO is taking steps to implement the import design changes outlined in the Alberta Department of Energy's (ADOE) June 6, 2005 Policy Paper. In principle, ENMAX supports the AESO's November 17, 2005 proposal to allow imports to price into the merit order, although we remain concerned with the potential impact of the proposed decrement ('dec') payment and with clarifying some aspects of the proposal that have yet to be detailed. These concerns can be summarized as follows:

- ENMAX is aware that there is no easy solution to non-dispatchability. However, dec payments embed incorrect economic incentives by penalizing importers who price in mid merit or higher. To avoid the dec payment, importers may be compelled to price imports low in the merit order, or reduce the volume of imports due to the increased cost/risk.
- ENMAX is encouraged by imports, to the extent possible, being treated the same as intra-Alberta generators. However, we remain concerned regarding an implied expectation that imports will be required to offer at cost, while all other intra-Alberta generation will not carry the same onerous restriction. If this becomes the case, the equality of treatment achieved by letting imports set price will be negated by restricting how imports can be offered. Furthermore, with the introduction of a T-2 lockdown, various forms of upward Pool price reconstitution, and the recent increase in market concentration, flexibility of import offers may be a key feature in balancing increasingly complex and concentrated market forces.
- ENMAX is opposed to sending this proposal to the AESO rule making procedure until all operational details have been vetted through the current stakeholder process, including penalties for dispatch non-compliance, potential for hoarding transmission capacity, enforcement and import pricing expectations, scheduling

with BC, potential for review and variance of the rule, and price reconstitution scenarios.

These concerns are discussed in detail in Attachment A.

ENMAX supports allowing imports to set price, although we remain apprehensive about the system dec payment. ENMAX also cautions against introducing a significant change in the market prior to consideration of all implementation, operational and enforcement issues. These comments are not intended to take away from the considerable effort that has been invested in this initiative by the AESO and other participants. ENMAX is aware that rule changes are, by their very nature, complex and require broad considerations. As such, ENMAX feels that the market will be best served by thorough, detailed and open discussion in order to promote the best possible outcomes and most effective rules.

Sincerely,

Chris Joy
Specialist, Regulatory Affairs

Attachment A

Dec Payment Concerns

ENMAX is aware that there is no easy solution to the non-dispatchability of imports. In an environment characterized by significant changes to market rules (T-2 lockdown, must offer/comply, upward Pool price reconstitution, etc), understanding the ultimate impact and interactions before the fact, is difficult, if not impossible. That being said, the proposed dec payment appears to embed an economic disincentive. If an importer is called to run in the pre-dispatch routine because the System Controller requires the energy for the Alberta system, and the import falls out of merit during the settlement hour, there is a cost/risk to the importer associated with the fact that the Pool price (PP) will settle lower than the offer price. With the current proposal, there will be an additional cost/risk that will need to be considered; that of having to pay a system dec payment on top of running out of merit when $PP < Offer$.

If a rule change is intended to affect a change in behaviour then the correct incentives should be in place. If the policy goal is to get importers to offer into the merit order above \$0, then the rule should be designed to incent this behaviour, or at the very least not embed a disincentive (additional risk and cost) to offer above \$0. The current proposal layers an additional cost on top of the stand alone cost of running when $PP < Offer$. By analogy, from a general policy perspective, it is not economically rational to effectively tax offer behaviour that is being viewed as socially good (improving price fidelity) for the market.

In short, ENMAX is unsure to what extent the current import proposal will economically enable importers to offer into the mid-merit order.

Areas Requiring Clarification

ENMAX would like to see all salient details of the proposal discussed in the current stakeholder process, rather than focussing on high level principles at this stage and then operational details during the rules stage. The substance of the operational details may affect to what degree participants can and should support the high level principles. Details needed at this point include (but are not limited to): penalties for dispatch non-compliance, potential for hoarding transmission capacity, enforcement and import pricing expectations, scheduling with BC, potential for review and variance of the rule, and price reconstitution scenarios.

Enforcement

ENMAX suggests a cautious approach to any proposal that could effectively allow transmission capacity to be hoarded. This concern arises if a party purchases some or all available non-firm capacity when they have not been called to run in the pre-dispatch routine. There are potentially jurisdictional issues (especially on the US-BC leg) that may arise because transmission is sold by BCTC, which is ex-Alberta.

ENMAX would like a clear indication of how the AESO intends to prevent the purchase of more transmission capacity than will be used in an attempt to block those who have been called to flow. These kinds of strategies have been used in other jurisdictions, and we believe Alberta should be proactive in considering this issue.

There has not been a great deal of discussion around sanctions or penalties for dispatch non-compliance. There are a host of reasons why an importer who has been dispatched may not be able to purchase non-firm transmission. ENMAX would like the AESO to provide a detailed outline of what is and is not an acceptable reason for non-compliance and outline the sanction or penalty structure.

A second concern around enforcement arises if there is an implied obligation that importers must offer at cost (Mid-C shadow price) under the current proposal. In general, rules need to be designed within the context of how they are going to be enforced. The AESO should not rely on an approach where enforcement issues are not part of the rule-making process, simply because another implementing agency is responsible for enforcement. Regardless of the ultimate import design, the rule should not be designed to allow offer flexibility if that flexibility ultimately will not be permitted. In the case of imports, ENMAX would encourage a collaborative approach with the MSA to outline expectations under the new rules.