



April 17, 2009

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

**Attention:** Cheryl Terry  
Vice President, Market Services (Interim)

Dear Ms. Terry:

**Re: AESO Integrated Market Roadmap**

EPCOR welcomes the opportunity to provide comments on the updated Market Roadmap. EPCOR is pleased that the Alberta Electric System Operator (“AESO”) reports that it has initiated all market related projects required to implement the Department of Energy’s, “Electricity Policy Framework” (2005 Policy Paper). Furthermore, EPCOR is reassured that all market initiatives have been considered in light of the Provincial Energy Strategy that was recently released.

EPCOR understands that the AESO has a vast number of initiatives that are currently in progress and appreciates that there are limited resources. That being said, EPCOR encourages the AESO to reconsider its prioritization of the issues as presented at the stakeholder information session on March 23, 2009. Although EPCOR recognizes that all items included in the Roadmap require considerable and timely attention, EPCOR has a significantly different view of what the priorities should be. EPCOR understands the AESO’s desire to complete the rule implementation on Congestion Management, Outage Coordination, Long Lead Time Directives, and Dispatch Variance as they are already underway and near completion. However, EPCOR does not believe that the AESO should begin consultation on any new initiatives until current issues with price fidelity are resolved. The top priorities from EPCOR’s perspective are discussed below.

EPCOR understands that the Market Systems Visioning Project is largely dependent on the market initiatives that arise and we feel very strongly that enabling the IT infrastructure to accommodate these initiatives should be the number one priority for the AESO. The Market Systems Visioning Project requires a forward looking approach and EPCOR encourages the AESO to develop a capable and flexible IT system. A well functioning and robust IT system is essential to the reliable operation of the electric grid and to the operation of a competitive market. IT limitations should not be considered acceptable reasons for not implementing the most efficient market. The AESO should make every effort required to update the current IT infrastructure such that inferior solutions to market issues are not developed at the expense of market participants or the fair, efficient and openly competitive operation of the electricity market. Once a robust IT system is developed the AESO will have the ability to focus on implementing market efficiencies. EPCOR sees no value in tackling large projects such as Interties or Demand Response until the required IT infrastructure is in place. It is a poor use of stakeholder time and effort, and the outcome often requires additional band-aid solutions.

In parallel with the Market System Visioning project, the AESO should allocate the resources necessary to address the numerous price fidelity issues that affect our market, in part, due to the inadequacy of the AESO’s IT system. The AESO, as the market facilitator, has a responsibility to ensure that the price signal is accurate and that the market is operating in a fair, efficient and openly competitive manner. Below, we identify a number of issues related to price fidelity that require resolution prior to commencing consultation on additional initiatives.

- **Dispatch Down Service (DDS):** The implementation of the DDS market was an attempt to address the impact of Transmission Must Run (TMR) on the Pool Price. However, DDS has resulted in a number of unanticipated and inefficient outcomes which require immediate attention. EPCOR urges the AESO to consider the impact of the DDS market on participant behavior as well as the “stickiness” of pool price at the Reference Price. The MSA published a paper, “Quick Hits Review: Dispatch Down Service,” in July of 2008 which highlighted a number of unanticipated consequences that have resulted from implementation of the DDS market. First, the impact of the Reference Price (an administrative price) on price fidelity is extremely inappropriate. The “stickiness” of pool price interferes with the natural price signal and, in many circumstances, acts as an artificial price ceiling. Second, there is evidence to suggest that DDS has not been successful in addressing the problem it was implemented to solve; price suppression caused by the dispatch of TMR. The MSA indicated that price reconstitution may not even be occurring; but only a transfer from generators as a whole to generators providing DDS. This is not the outcome contemplated in the stakeholder consultation on Quick Hits, nor does it address the issue of price distortion raised in the 2005 Policy Paper. EPCOR recommends that the AESO reevaluate and address the unintended consequences of DDS and the Reference Price on Pool Price fidelity. EPCOR finds the AESO’s lack of response to this issue egregious in light of the evidence brought forward by market participants as well as the MSA.
  
- **Constrained Down Payments:** EPCOR continues to encourage the AESO to consider Constrained Down payments as a solution to address price distortion caused by transmission congestion. Congestion is becoming an increasingly frequent and serious problem afflicting significant sections of the transmission system. Ensuring that congestion is managed properly is extremely important to the continued development of the Alberta electricity market. EPCOR is of the view that transmission congestion should be managed such that it has the least possible impact on price fidelity. Specifically, congestion remedies should be reflected in the cost of transmission, not in the cost of energy. Ideally, generators should bid to be dispatched down and receive payments outside of the merit order, while generators who are to be dispatched on to provide TMR should bid on and receive payments for this service outside of the energy market. Both of these can be properly characterized as services being offered outside of the merit order, as they are being provided to supplement the inadequate transmission system that has resulted from the delay in building transmission. While short term, infrequent congestion may be addressed through revisions to the proposed Congestion Management Rule as directed by the AUC, the AUC clearly envisions an alternative that is more considerate of pool price impacts should congestion become more frequent or enduring. This treatment of these services is likely to have the least impact on the Pool Price.
  
- **Intra-hour Settlement:** EPCOR requests that the AESO consider the shift from hourly to one minute settlement intervals a priority, as intra-hour settlement is conducive to a more accurate price signal resulting in more efficient market outcomes. A more frequent settlement provides greater incentives for generation and load to respond to price. Currently market participants may not be incented to respond to changes in price if it is believed the price change will be short lived. “Payments to Suppliers on the Margin,” as implemented in the Quick Hits package, was an attempt to improve price fidelity (an overarching theme of the 2005 Policy Paper). Intra-hour settlement is far superior and is a much more elegant alternative to “Payments to Suppliers on the Margin”. Furthermore, the 2005 Policy Paper discussed the benefits of intra-hour settlement with respect to increasing demand response; intra-hour settlement provides greater incentives for demand to respond to changes in the energy price, something that “Payments to Suppliers on the Margin” does not address. EPCOR understands that the primary reason a more frequent settlement was not pursued was IT limitations. EPCOR does not see this as an acceptable reason for not implementing a superior solution to “Payments to Suppliers on the Margin”.
  
- **Supply Surplus Protocol:** Although, the AESO has elected to address supply surplus management (OPP 103 Dispatching \$0 Offers) via the current consultation on wind integration, supply surplus management has much broader implications than those specifically related to increases in wind generation. Increases in transmission congestion, inertia capacity and potential nuclear development would also result in the need for a robust supply surplus management protocol to ensure competitive market outcomes. For this reason, supply surplus management should be consulted on independently of the wind consultation. It is essential that the final supply surplus management protocol is market

based to ensure it produces correct price and investment signals. EPCOR views the ability of all supply resources, including interties, to set price an essential part of supply surplus management.

- **Price Cap:** EPCOR is pleased that the AESO has committed to review the price cap. EPCOR is of the view that price should reflect market fundamentals at all times and that administrative actions negatively impact price fidelity. EPCOR encourages the AESO to use its learnings from this initiative to improve price fidelity, whether through changes in the price cap or not.

Finally, EPCOR is of the view that the AESO should consult on Market Suspension Rule 6.9 as soon as possible. The rule is outdated and requires immediate attention. In the event that the Market is ever suspended, there are huge implications for market participants that have invested considerably in the Alberta electricity market.

A complete ranking of all Roadmap initiatives has been included, although, EPCOR feels that the issues discussed above take priority due to the significant implications to price fidelity. To the extent that the AESO has additional resources, it may be appropriate to begin working on issues further down the priority list. However, EPCOR sees little value in consulting on additional market initiatives such as Interties or Demand Response until the current issues with price fidelity are addressed and adequate metrics for measuring market performance are developed. EPCOR has also provided comments on the Implementation of MOF for Wind Integration which reflects our view that significant consultation is still required; however, we believe that issues related to price fidelity should still take precedent. With respect to the FEOC regulation, on the basis of the draft Regulation, EPCOR does not foresee a large requirement of AESO resources even once the Regulation is introduced.

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@epcor.ca](mailto:jgtaylor@epcor.ca).

Yours truly,

EPCOR Utilities Inc.

<Original signed by>

Janene Taylor  
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