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**FXED**  
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Mr. Wes Green  
Director, Market Services  
Alberta Electric System Operator  
2500, 330 – 5<sup>th</sup> Avenue SW  
Calgary AB T2P 0L4

Dear Mr. Green:

**RE: EnCana's Comments on the November 17<sup>th</sup>, 2005  
"Treatment of Imports as Intra-Alberta Generators"**

EnCana appreciates the opportunity to comment on the revised "Treatment of Imports as Intra-Alberta Generators". Our comments in this document mirror those provided at an earlier meeting.

EnCana's Understanding of the Proposal:

It is our understanding that in order to encourage imports to offer non-zero prices, and therefore be eligible to set pool price, the System Controller will essentially procure "Decremental Service" on behalf of the non-dispatchable importer.

If an import operating block is out-of-merit, the highest priced-in-merit dispatchable operating block will be dispatched down by an amount equal to the quantity associated with the out-of-merit import operating block. The out-of-merit importer will pay an out-of-merit dispatch payment to the in-merit dispatchable operating block that was dispatched down in its stead. The out-of-merit dispatch payment will be the quantity dispatched times the difference between the pool price and the offer price of the in-merit dispatched down operating block.

During the settlement interval the SMP will be reconstituted as the price of the highest priced operating block that would have been required to meet the demand for the period that the import operating block is out-of-merit.

EnCana's Observation:

EnCana believes that the revised proposal is an improvement over the initial proposal distributed on September 19, 2005 as it may increase the probability that imports will offer at a non-zero price.

However, EnCana still has serious concerns with the proposal. To illustrate the concerns, EnCana puts forward the following simplified example.

Example:

		<u>Offer Price</u>	<u>Cum. Load</u>
Block D	600 MW	\$90/MWh	6750 MW
Block I	50 MW	\$80/MWh	6150 MW
Block C	50 MW	\$70/MWh	6100 MW
Block B	50 MW	\$60/MWh	6050 MW
Block A	6000 MW	\$50/MWh	6000 MW

At the start of an hour, load is 6150 MW, block I (the import block) is fully dispatched and SMP is \$80/MWh. Thirty minutes into the hour load drops 75 MW to 6075 MW. Since the import block is non-dispatchable, block C is dispatched down to 0 MW and Block B is dispatched down 25 MW. The reconstituted pool price for the hour is \$75/MWh. For the last 30 minutes of the hour, block B is kept whole by a payment of \$10/MWh for 25 MW which is paid by the import block I. Block C is paid \$80/MWh for the 25 MW generated in the first 30 minutes and nothing for the last 30 minutes.

Concern #1 – Does the import block I receive a payment as its offer price is greater than the settlement interval pool price?

Concern # 2 – If Block C has offered in as inflexible, and the load only decreases 25 MW (rather than the 75 MW as described in the example):

- Identity what blocks will be dispatched up or down?
- What is the reconstituted pool price?
- What will each of the operating blocks be paid through the settlement process?

Concern # 3 – the AESO's revised "Treatment of Imports as Intra-Alberta Generators", as described at the November 24<sup>th</sup> session, provides increased revenues to all dispatched suppliers (i.e. importers and intra-Alberta generators) with the sole exception of the intra-Alberta operating block on the margin. For instance, using the example above, under today's rules the importer will have offered its volume at \$0 and sit at the bottom of the stack. When the load declines 75 MW as in the example above the price will be \$60/MWh. Under the proposed market rules, when the load declines 75 MW the price will be reconstituted to \$70/MWh.

All of the suppliers, with the exception of operating block C, the marginal block, improve their revenue position. While one may argue that marginal block C is no worse off under the proposed market rules as its revenue is the same as under today's rules, in actual fact marginal block C is worse off in relative terms. Therefore the facility has lost relative value under the proposed market rules. This loss in relative value will discount its market value.

Marginal block C can choose to accept the lost value, or can "race to zero" and hope that the reconstituted pool price will be greater than its operating price.

Concern # 4 – the AESO has proposed that the pool price will be reconstituted to adjust for TMR generation. While EnCana appreciates that the TMR reconstitution quick-hit has been delayed somewhat, EnCana remains concerned that its concerns on TMR Reconstitution will be exacerbated by Import Reconstitution.

EnCana's Recommendation:

EnCana supports the System Controller/AESO procuring "Decremental Service" on behalf of importers to facilitate an open, fair and efficient market. However, EnCana does not support market rules that add or detract relative value from generators.

EnCana recommends that the AESO institute a market-based solution to procuring "Decremental Service". One possible market-based solution may be to operate a "swing market" that would work in a manner similar to ancillary services. Suppliers would compete to provide "Decremental/Incremental" service to accommodate the non-dispatchability of import operating blocks. The elegance of this market solution is that it can be broadened to accommodate all non-dispatchable supply (e.g. run-of-river hydro and wind). Further analysis and discussion is necessary to determine if this "swing market" would operate in a manner similar to active ancillary services or stand-by ancillary services.

Yours sincerely,

EnCana Power Partnership



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Vice President  
EnCana Power

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