

Stakeholder Comment Form

TCM: Rule 9.4 AUC Re-Filing Proposal Paper

Date of Request for Comment: December 3, 2009
Period of Consultation: December 3, 2009- January 15, 2010

Stakeholder: Industrial Power Consumers Association of Alberta (IPCAA)

Section of Paper	Description	Stakeholder Comments
1 Executive Summary	An overview of the key discussion points and proposals contained in the paper.	<p><i>“The AESO will continue its current practice of TMR procurement and usage”</i> – Why did the AESO decide not to have the new TCM rule alter TMR?</p> <p><i>“The AESO does not recommend using any pay as bid protocol within the TCM Rule.”</i> – The AESO should re-consider pay as bid if it results in more efficient (and cost effective) dispatch. By dispatching at a higher price due to a transmission constraint – generators enjoy windfall returns that are largely caused by their desire to run during periods of transmission congestion – the AESO needs to distinguish between congestion caused by generators and congestion caused by domestic Alberta loads – to expect loads to pay a higher price while some generators are constrained from exporting energy seems to be highly unfair to loads.</p> <p>TCM is only required when the AESO has not contracted for adequate TMR in advance of a potential constraint – When TMR is run it does not affect the hourly price – logically then TCM should not affect the market price when required.</p>

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		<p>As loads pay for all transmission costs then the cost of TMR and TCM is a transmission cost – not an energy cost – and should have no impact on the hourly “unconstrained price.” To pay a higher energy cost during periods of congestion means that generators receive a wind-fall benefit due to congestion, and loads pay more than that necessary to offset the transmission constraint. Stated in the reverse manner – if the transmission constraint did not exist as adequate transmission was available, loads would only pay the added cost of the incremental transmission and no additional compensation to generators. The constraint should not provide windfall benefits to any generators.</p> <p><i>“The AESO does not see a need to modify the TCM rule with respect to DDS dispatch.”</i> – Where possible, the AESO should work to enable loads to supply a DDS-like product.</p> <p><i>“The AESO will modify 9.4.4 b) rule language to provide additional clarity surrounding the conditions under which the SC will exercise its discretion in deviating from the protocol in an area.”</i> – In the event that the SC deviates from protocol, reports should be produced after-the-fact to allow the market to understand what occurred. Transparency is extremely important to the market.</p>
2 Introduction	A brief history of Quick Hits rule development and reason for the paper.	No Comment
3 Background	A brief history of TCM Rule 9.4 development and reason for the paper.	No Comment
4 Recap of Commission	A review Commission FEOC	No Comment

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Findings in the TCM Decision	and public interest findings.	
4.1 i) Economic Dispatch	AESO use of merit order for dispatch is discussed.	<p>The AESO needs to consider other options here. Another solution is constraining down downstream load that has contracted for a demand response program.</p> <p>If there are loads that are willing to be compensated by DR payments for curtailing their consumption to alleviate a congestion problem, this should be allowed and encouraged. Load pays for all transmission costs, and as such should be part of the solution to managing temporary lack of transmission. Generators should not receive extra compensation (via increased market prices) due to congestion when they do not pay for transmission. Loads already have Critical Transmission Infrastructure costs looming. Adding to the pool price due to a temporary transmission constraint is unfair, inefficient, and far from open and competitive.</p> <p>There is the possibility of perverse price signals. For example, if there is a constraint between Area A and Area B, and the market price is allowed to rise, bringing on more expensive generation in Area B, while constraining off some generation in Area A, there will be some perverse signals for loads. If a price-sensitive load in Area A sees the higher price, it may curtail and exacerbate the problem. It would be better to treat real-time congestion management the way transmission is treated, as a separate issue. This way, there could be competition from a series of resources, including Demand Response, to meet these temporary needs. If generators want transmission rights they should pay for some transmission costs.</p> <p>More analysis should be done on when these transmission congestion</p>

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		<p>periods occur. If generators who are exporting are being disadvantaged by congestion constraints, than they should pay. Alberta customers should not have to pay higher market prices to allow exporters to profit from congestion issues.</p> <p>If the merit order is to be effectively reconstituted upwards due to congestion, why do we not reconstitute the merit order downwards due to the congestion on the interties preventing imports from entering the province? According to the AESO’s logic for in-market solutions, price reconstitution to compensate loads for the delays in procuring import support products to restore the intertie with BC should be made a priority as well.</p> <p>The AESO’s logic for dispatching up the merit order as an “in-market” solution is perverse. If we apply the same logic to the current artificial constraints on imports, as the AESO is unwilling to contract for LSSI, then whenever the hourly price results in import opportunities that are constrained by the absence of LSSI, we should cap the price at whatever the level would have been with unconstrained imports and direct generators to run at these prices – contracting for LSSI is the same as contracting for TMR – and the failure of the AESO to procure these contracts should not result in loads having to pay higher prices – the same as a failure to contract for adequate TMR should not result in higher prices by use of the proposed TCM rule of dispatching up the merit order.</p>
4.1 ii) Pool Price Impact	Transmission constraint impact on market is discussed	<i>“Provided that the EMMO/RMO approach is used infrequently and for periods of congestion of short-duration, the Commission finds that the</i>

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		<p><i>price impact of the TCM Rule does not, in and of itself, offend the FEOC operation of the market.”</i></p> <p>The AESO should clarify this statement prior to moving forward. There needs to be a clear definition of “infrequently”. Does this mean that centrally procured DR that would be used to manage congestion would be acceptable and not offend FEOC if it were used “infrequently”?</p> <p>How frequent is too frequent?</p>
<p>4.1 iii) Compensation</p>	<p>A review of the requirement for compensation for being constrained down</p>	<p><i>“Constrained down payments will not be paid to generators.”</i> This is consistent with the <i>2003 Alberta Transmission Development Policy</i> paper:</p> <p><i>“The real-time congestion scheme should use a reverse merit order to dispatch down units in a congested area, with units not in merit order being paid as bid so that congestion costs are not reflected in the system marginal price. In our market model, it is critical in the relatively few cases where transmission constraints are not removed, real time congestion arrangements should not set or distort market prices. Where generators are paid out of merit to alleviate a transmission constraint, the costs of the out of merit payments will be a transmission payment and not a form of uplift in the wholesale energy price. These costs should be allocated in the same manner as other “wires” costs.”</i></p> <p>This same policy document reference indicates that the “EMMO approach” – going up the merit order to alleviate transmission congestion – is not accepted. Out-of-merit generation should be dealt with as “wired costs”.</p>

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		<p>The 2003 transmission policy paper is the same originating document that resulted in loads paying 100% of transmission costs in Alberta. The perception is that this applies only to payments to TFOs – but in cases of congestion the paper rightly points out that a payment for energy upstream of a transmission constraint is merely another payment for transmission – and should not set a new energy price. This appears to be government policy and we are uncertain as to how or why the AESO has chosen to ignore this policy</p>
4.1 iv) Transmission “rights”	Generator’s “right” to access the AIES is discussed	IPCAA agrees with the AESO and AUC positions that generators have no ‘rights to access’ – that was the quid pro quo when loads assumed 100% responsibility for transmission costs – if generators want to have access to export markets then the merchant transmission option remains as the alternative.
4.1 v) Use of TMR/DDS	AESO use of TMR/DDS is discussed.	It is disconcerting that TMR and DDS appear to be referenced as similar products – TMR arises as a result of the need for temporary or lower cost solutions to building transmission – DDS is a service operated by the AESO (with the operating costs attributed to ratepayers) strictly for generators. It is interesting that the AESO is reluctant to provide a similar service for loads as part of a DR program – but provides this “free” service for generators.
4.2 i) Long term investment impact	TCM impact on long term investment decisions is reviewed.	<p>“The short term nature of the TCM rule is not an impediment to long term investment.”</p> <p>IPCAA agrees that AESO proposed TCM rule is not an impediment to long-term investment by generators – but then neither is the ‘pay-as-bid.’ In fact, pay as bid with price disclosure of the constrained dispatch prices may be an incentive to new investment in constrained</p>

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4.2 ii) Use of business practices	AESO use of business practices for constraint management is discussed	<p>areas either from generators or loads with DR capabilities.</p> <p>“This part of the ruling provides AESO some discretion on the use of business practices to meet its duties under the EUA.”</p> <p>As long as there is transparency to the market.</p>
5 Discussion of Commission Directions in the TCM Decision	This section introduces the discussion of and the AESO proposals regarding each of the Commission directions.	IPCAA does not agree with all of the AESO’s interpretations of the AUC directions.
5.1 Clarify the Scope of the TCM Rule	A proposal on whether the TCM rule should be limited to real time or expanded to include planning stage elements is presented.	As indicated earlier, TCM is the consequence of not having adequate TMR in an area – and TMR is the interim or permanent solution to ‘just sufficient’ transmission capacity. An unconstrained transmission system does not mean that we require an overbuild of transmission to the magnitude that constraints will never occur – TMR as a substitute for transmission wires can be, and often is, a lower cost solution than building wires.
5.2 Clarify the TCM/TMR Rule relationship	A review of how the AESO would move from the use of the TCM Rule to the use of TMR is presented.	
5.3 Consider ENMAX Pay as Bid Approach	The merit of using the ENMAX pay as bid proposal within the TCM protocol is discussed	<p>First of all, the AESO should acknowledge that statements such as “The pay as bid protocol removes the impact of a constraint from the pool price and, in ENMAX’s view, is consistent with government policy that congestion arrangements should not set or distort market prices” are misleading and prompt stakeholders to believe that the AESO is marginalizing ENMAX. The <i>2003 Alberta Transmission Development Policy</i> paper states that:</p> <p>“The real-time congestion program should use a reverse merit order to dispatch down units in a congested area, with units not in merit order</p>

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		<p>being paid as bid so that congestion costs are not reflected in the system marginal price. In principle, real-time congestion or constraints should not alter or distort market prices.”</p> <p>Thus it is not ENMAX’s view only, but a correct statement of the Government of Alberta’s view as well.</p> <p>“The proposed TCM protocol is an in-market solution. The market can provide for a price that reflects the “scarcity” created by transmission congestion – there is no need to go out of market. Scarcity pricing also leads to loads facing the full price of transmission congestion since the cost of congestion is reflected in prices.”</p> <p>This is likely the most capricious statement in the entire TCM document. To suggest that somehow a congestion event is an energy scarcity and therefore all loads should pay generators a windfall scarcity premium in energy price causes loads to wonder whether the AESO is being objective and unbiased – and then to attempt to justify this as being ‘in-market’ simply adds salt to the wound. ‘In-market’ from whose perspective? Certainly loads do not see dispatching up the merit order as a result of some generators being constrained from exports as being ‘in-market’ with respect to the energy price in Alberta.</p> <p>Transmission congestion should not be considered a scarcity event. Transmission issues should be dealt with outside of the energy market.</p> <p>Loads are already paying for ALL transmission. If congestion is to be managed through the energy market, why is there TMR outside of the energy market? Why not move to locational marginal pricing? Why is</p>

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		<p>the AESO picking and choosing which aspects of transmission fall in the “energy” pot, and which fall in the “transmission” pot? This is not at all fair to loads because it artificially distorts the price signal.</p> <p>“The AESO would prefer to use “in market” solutions first before going to “out of market” solutions. As an example, the AESO considers dispatching the merit order and using it to set SMP to be an “in market” solution.”</p> <p>The AESO should recognize that it is actually reconstituting the merit order upwards, not being neutral to the marketplace. Reconstituting the price is an out-of market solution.</p> <p>As mentioned earlier the same logic could be applied to constrained imports due to lack of LSSI – and the price would be capped at the level of the constrained imports – with generators dispatched at the constrained price – or at their ‘bid’ price but only paid to that generator. This would seem to be a totally ‘in-market’ solution according to the AESO concept of “in” and “out” of market solutions based on constrained resources – a constrained inter-tie then would have the same impact as a constrained transmission line.</p> <p>“The pay as bid protocol is an administrative, non-transparent, “out of market” solution.”</p> <p>The pay-as-bid solution has been used effectively in other jurisdictions and is no more “out-of-market” than the AESO’s administrative, non-transparent solution of solving a transmission issue by reconstituting the merit order upwards.</p>

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		<p>The AESO already uses this mechanism for payments to generators that are not dispatched for a full hour, and then recovers the costs through an uplift charge. In this instance the recovery would be through a transmission surcharge similar to TMR payments – the inability of the AESO systems to accommodate a fair solution should not be an excuse to ‘not do the right thing’.</p> <p>“The pay as bid protocol is not appropriate for all types of constraint situations and may create perverse incentives”</p> <p>Perverse incentives are created by raising the entire market price for a transmission issue.</p> <p>The examples used by the AESO as ‘perverse incentives’ are a bit faulty in their logic – in that even though the payments to constrained generators may be higher – it is only for the volume that they generate – and the rest of the generators are paid the lower price – proper analysis would indicate that the total cost to loads would be lower under all circumstances for a ‘pay-as bid’ model.</p> <p>“While allowing prices to rise may in some instances be more costly than the pay as bid model, the resulting price is a result of market economics and sends correct signals.”</p> <p>IPCAA strongly disagrees with this statement. The AESO is effectively deciding that a higher price is better. How does this send a proper price signal to the marketplace? Are generators going to relocate their plants to better suit a temporary transmission constraint? Are loads nowhere near the constraint going to fix the problem by curtailing their demand?</p>

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		This is a transmission issue that should not be dealt with in the energy market. The price signal feedback loop will never encourage market participants to effectively alleviate the congestion problem. This will only create perverse incentives.
5.4 Define Key TCM Rule Terms	A proposal regarding specific TCM rule key terms is presented	The AESO needs to consider what the term “in-market solution” means. There appears to be a significant difference between an “in-market solution” from a generator perspective than from a load perspective. Loads pay a delivered cost of energy to their facility or home – this cost includes distribution, transmission, reliability payments (ancillary services) and energy. When Alberta moved to a 100% transmission cost to loads, the relevant energy price is the price at the generators facility – all other costs are one of the other three components. None of those three (transmission, distribution, or reliability) should be a factor in determining this unconstrained price of energy. This is a consequence of the transmission policy adopted in Alberta, and until it is changed the AESO and AUC must treat generators as energy originators at their facilities, with no windfall benefits from any of the other cost factors.
5.5 Clarify TCM Rule Process Steps	Specific TCM rule process steps are discussed together with proposals to provide additional clarity where appropriate.	The AESO needs to consider what situations this process would NOT be used for – such as major outages? At what timespan does this “real-time” policy become invalid?
6 Next Steps	Stakeholder feedback on the TCM paper discussion and proposals is requested.	IPCAA would be happy to meet with the AESO to review this feedback in advance of any refilling. IPCAA believes that the AESO has several key issues to consider and stakeholder prior to determining that this policy is complete or comprehensive.

