



31 March 2009

Ms. Laura Letourneau  
Director, Market Services  
Alberta Electric System Operator  
2500 330 5<sup>th</sup> Ave SW  
Calgary, AB T2P 0L4

**RE: IPPSA's Response to Two Key DRWG Terms of Reference Questions**

Dear Ms. Letourneau:

IPPSA provides the following response to the two key questions posed in the Demand Response Working Group (DRWG) Terms of Reference.

**Question 1: "How can load be enabled and encouraged (incented) to participate in Alberta's electricity markets?"**

- Loads can best be enabled and encouraged to participate in the real time and forward markets when they are provided with an accurate, high integrity, spot market price signal. Such a signal encourages loads to participate by curtailing demand in response to prices, by forward contracting to manage volatility, by constructing on-site supply, or by investing in changes to their processes to allow load shifting. To encourage such participation, the Alberta Electric System Operator's (AESO) spot market price signal should be free of interference. This will require the following:
  - 1) Review the efficacy of the Dispatch Down Service (DDS) tool. It is perceived by some participants and by the Market Surveillance Administrator<sup>1</sup> that the current DDS design is not truly reconstituting the impact of \$0/MWh Transmission Must Run (TMR) offers. This affects price integrity.
  - 2) Expedite intertie dispatchability. The impact of \$0/MWh imports has a risk of detrimentally impacting market prices.
  - 3) The agencies – especially the AESO – need to adopt the 'culture of the commodity', by encouraging load to be responsible for managing its own price and volume needs and by not promising to ensure reliability on load's behalf (e.g. "Reliable Power"). In an open market, the level of reliability is what consumers want it to be based on what they are prepared to do for reliability or pay for it (e.g. contracting or adding on-site supply).
  - 4) Consider raising the price cap. FERC's Kevin Kelly noted at IPPSA's conference that increasing demand response was a key driver in FERC's interest to show 'shortage pricing'.
  - 5) Provide market certainty. Loads – and supply – will not actively participate in the market, or make investments to increase their participation (e.g. metering technology), if the rules of the market continue to change, or if FERC principles are not supported.
  - 6) Socialize the upgrade to real-time metering for all core market customers not yet metered in this way, as outlined in the Provincial Energy Strategy. Metering, coupled with an

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<sup>1</sup> MSA Report: "Quick Hits' Review: Dispatch Down Service", 10 July 2008

increase in the price cap, will help the market to determine the Value of Lost Load (VOLL) for various customers, and will enable price responsive participation.

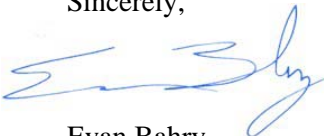
- Loads can be encouraged to participate in the AS market by competing against generators for Ancillary Services, TMR, Long Lead Time Energy, Outage Coordination, Dispatch Down Service, and perhaps some kind of future-developed Wind Following Product. This competition must occur on a level playing field basis, where supply and demand participants receive the same terms of compensation. (e.g. variable cost compensation, where appropriate, and fixed cost compensation, only where appropriate.)
- Perhaps standing offers for these reliability services, instead of RFPs, would encourage more participants to offer prices.
- Boundary conditions need to be applied when considering any steps undertaken by the AESO to 'enable' or 'encourage' loads to participate. Specifically, loads should not be provided any compensation that is inconsistent with Alberta's commoditized, FEOC market. Loads' participation must also be consistent with any forthcoming FEOC regulation. As we know, the AESO's spot energy market does not support capacity payments, except for an extremely limited range of products in the reliability market (AS). Should participants be interested in securing capacity payments, they should first focus on what can be negotiated outside of the AESO's market, between willing participants.
- Require loads and all load serving entities to bid into the AESO's energy market uncapped. This will create the same discipline on the load side of the market – in terms of active participation and decision making – as it does for supply. In addition, such a requirement will enable the System Controller to determine VOLL, and determine a merit order of loads to dispatch in case of emergency. Loads that schedule should be eligible for payments on the margin should they shed at one price, but due to settlement issues, be required to pay the hourly price.

**Question #2: “How to acquire sufficient voluntary demand response to maintain system reliability over the next X years in a manner consistent with legislation and regulation”**

- As noted above, require loads and all load serving entities to schedule bids uncapped, so the AESO sees a merit order of loads to shed during a 'reliability concern'
- As noted above, conduct a gap analysis on the existing services that the AESO conscripts from supply and determine how loads can compete (TMR, blackstart, AS, Outage Coordination, Long Lead Time, DDS, etc)

We hope this contributes to the work of the DRWG. Should you have any questions, do not hesitate to contact me at 403-282-8811.

Sincerely,



Evan Bahry  
Executive Director