



03 October 2007

Mr. Doug Simpson
Market Operations Specialist,
Market Development
Alberta Electric System Operator
2500, 330 – 5th Ave SW
Calgary, AB T2P 0L4

RE: IPPSA's Response to Congestion Management Plan

Dear Mr. Simpson:

IPPSA is pleased to provide comments and suggestions on the AESO's Congestion Management Plan (CMP).

We recognize the need for a new approach to congestion management as the current approach does not work. The events of May 15th 2007 make that clear. On May 15th, a contingency occurred on the North/South flows. As TMR units were directed on in the South, the energy market price collapsed. Imports were subsequently backed out of Alberta's market and the problem of insufficient southern Alberta supply was compounded.

In terms of the CMP, IPPSA wishes to raise two concerns, followed by a question:

- We are concerned that the CMP blurs the lines between energy market price signals and transmission issues. In a single clearing price market, it is imperative that the energy price reflects energy supply and demand fundamentals.
- We are concerned with the Reverse Merit Order approach proposed by the AESO. We believe that a pro-rata approach is much fairer, does not impede merit order integrity and is consistent with elements in the Electric Utilities Act or the Transmission Regulation.
- Finally, how will the AESO's CMP idea work with the proposed Red/Green market power mitigation idea?

The following elaborates.

1.0 Transmission Issues Should Not Affect Alberta's Single Clearing Price Energy Market

IPPSA is concerned with the objective of the CMP which is to use the energy merit order to correct a transmission congestion issue. This runs counter to the fundamentals of our market, which is to ensure that the single clearing price energy market reflects energy supply and demand. IPPSA's concern is consistent with our long standing objection to TMR volumes offering \$0 into the energy market.

The CMP proposes to use the offer price of a downstream generator to set the pool price, even though generators upstream of the constraint may be in merit, but for the lack of transmission. In such circumstances, the price signal is rendered useless for those north of the constraint.

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IPPSA Recommended Solution:

Acquire TMR services from appropriate suppliers and provide for dispatch down payments

IPPSA recommends that the AESO acquire TMR services from appropriate suppliers (i.e. downstream of the constraint) **and** acquire and pay for dispatch down services for those north of the constraint. It is important that these two activities be linked as they are both required to de-constrain the system and when added together, more accurately reflect true congestion costs. TMR suppliers can include curtailable loads, generation and imports. In locations such as southern Alberta, there are a significant number of service providers and a competitive market can be called upon. The AESO should be able to run a successful RFP to provide TMR services when required.

IPPSA proposes that real-time price reconstitution is a superior alternative to pricing the entire market based on an out-of-merit dispatch. The pool price should reflect the market price determined by bids and offers based on fundamentals of the energy market such as supply and demand balance, economics of generation and forecast fuel prices.

It is inappropriate to layer onto energy markets financial transactions related to Ancillary Services required to maintain transmission services, within a single clearing price energy market.

2.0 Pro Rata Preferred to Reverse Merit Order

2.1 RMO may not be consistent with the Act and Transmission Regulation

Section 17(g) of the EUA requires the AESO to provide “*system access service on the transmission system and to prepare an ISO tariff*”. EUA Section 5(b) states: “*All persons wishing to exchange electric energy through the power pool may do so on non-discriminatory terms...*” In Alberta’s open access system (which is essentially a common carrier system) there is an issue of undue discrimination if system access service to the transmission system is denied or curtailed based on a participant’s offers in the energy market that are unrelated to the reasons for the curtailment.

In the case of the CMP, a curtailment to an upstream generator is caused by inadequate transmission service, not an inadequate offer price. If the transmission service had been adequate, all upstream generators in merit would have been dispatched. The AESO proposal to use offer price to assign transmission capacity is consequently unfair and discriminatory. Therefore, the CMP’s claim that the “DOE position is consistent with the Act” may not be supportable.¹

Furthermore, the Transmission Regulation AR 86/2007T states that the ISO “*must make rules and establish practices respecting the operation of the transmission system and the management of transmission constraints that may occur from time to time.*”² (underlining added). The Transmission Regulation clearly directs the AESO to address congestion by altering transmission operation and makes no reference to reverse merit order as the required mechanism to manage constraints. The AESO does not appear to be given the latitude, whether in the Transmission Regulation or otherwise, to interfere with the merit order in response to transmission constraints.

¹ CM Paper, section 3.2

² Transmission Regulation, Section 17

2.2 RMO could distort prices

During a constraint that lasts longer than 2 hours, upstream generators will be forced to become price takers to avoid taking the brunt of the constrained-down requirements. This will force the AESO to a pro rata curtailment process. IPPSA recommends that pro rata should be implemented right from the beginning.

Additionally, pricing strategies can be expected to change during periods when constraints are more likely to occur. This will lead not only to re-pricing during contingency events lasting more than two hours but also to pricing offers in anticipation of a constraint. This will affect upstream and downstream generators and importers'³ offer strategies distorting price fidelity.

As the AESO is aware, the industry has been trying to improve the stability of the merit curve and using RMO will add to the problem. The incentives provided by spiking pool prices caused by downstream generators setting the pool price will motivate upstream generators to generate as much as pro-rata curtailment will allow.

This price distortion will have other consequences as well. As noted, pricing during contingencies will be distorted and routine pricing practices may be influenced but both of these will feed into forward pricing and investment decisions. It could even cause counter-intuitive siting decisions that are contrary to the public interest. Adding generation downstream of a constraint would have a downward impact on pool prices during the CMP's use, while adding to the upstream supply could increase the times when congestion pricing will occur with the result being average pool price increases caused by downstream generators setting pool prices more often. As a result, generators may be motivated to add generation supply upstream of the congested path. Once transmission additions eliminate congestion these generators will be no worse off than if they sited downstream of the congestion.

IPPSA Recommended Solution:

Use Pro rata rather than RMO to constrain-down generation

A more workable and fair alternative to RMO is pro rata. Under the current CMP, procedures must be in place to handle pro rata when upstream generator prices are the same (i.e. it is the next step in the CMP after RMO). By implementing pro rata from the beginning the administrative burden is actually less, and the concern for effectiveness must be found whether that is an initial or a later step in the process.

IPPSA suggests the effectiveness of pro rata could be addressed by establishing minimum constrained down volumes per generator or using a rotational system. Regardless, IPPSA offers to work with the AESO to resolve any other administrative challenges that may arise. IPPSA also believes that a secondary market could develop for those generators with inflexible blocks and requests the AESO to provide for the development of this market.

³ If imports are dispatched for CMP they would be incented to price such that downstream generators get dispatched before their \$0 imports. If they set price under CMP they will price accordingly.

3.0 Implications of Red/Green Proposal

As proposed in the draft Section 6 report, generators would be in the red zone should they have dispatch control of a certain percentage of the residual volumes. We are concerned with how the red/green proposal will be adapted in response to the CMP. For example,

- Would upstream generation that is curtailed - and its volumes therefore 'frozen' from participating in the market within the CMP - count in the determination of residual supply?
- In order to achieve the price signal that the AESO is seeking from downstream supply, would the red/green proposal be lifted in its entirety? If it is not lifted, how could the red/green proposal be adapted?

With the AUC's proposed \$1 million/day administrative penalties and \$5 million/day offense penalties, the role of the red/green proposal with regard to the CMP must be defined well in advance of any adoption of the proposal in AESO rules.

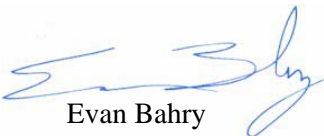
IPPSA Recommended Solution:

Assess the Impact of the Red/Green Proposal

IPPSA recommends that any further work on the CMP be coordinated with the Minister's forthcoming recommendations on the Section 6 report. Should the red/green proposal be adopted by the Minister, the AESO must consider how it would be adapted or amended to accommodate the goals of the CMP. This may include suspending the red/green protocol during periods of congestion. This is just an idea and we look forward to working with the AESO on understanding how the CMP and red/green may work together.

Thank you again for the opportunity to comment on the Congestion Management Proposal. Should you have any questions, do not hesitate to contact me at 282-8811

Sincerely,



Evan Bahry
Executive Director