



March 29, 2006

Dear Market Participants and Interested Parties:

Re: TMR Price Reconstitution

In reviewing recent comments regarding the proposed “Quick Hits” rules package it has become apparent that there is both confusion and some open questions regarding the Policy Framework recommendation to reconstitute the pool price for TMR Energy.

On March 24<sup>th</sup> the AESO hosted a meeting with stakeholders to discuss the implementation of TMR Price Reconstitution. The following issues were discussed:

- 1) Policy Issues
- 2) Constrained Down Payments
- 3) Monitoring Unintended Consequences
- 4) TMR Reference Price.

A summary of the key issues associated with TMR Reconstitution is attached for your reference.

At the stakeholder meeting we affirmed that a) TMR Reconstitution is part of existing Policy and that the AESO is proceeding with the implementation, and b) that “constrained-down” payments will not be included in the proposed methodology.

The AESO monitors the impact of any change to an ISO Rule for the purpose of ensuring that the Rule results in the outcomes intended by the Rule. At the stakeholder meeting we committed to provide a formal review of the impact of TMR Price Reconstitution approximately 6 months after the Rules are implemented.

Finally, we have asked stakeholders for input on appropriate methodologies for determining the TMR Reference Price. Please forward written submissions regarding the methodology for determining the TMR Reference Price to:

Wes Green at [wes.green@aeso.ca](mailto:wes.green@aeso.ca)

or

Colleen Fairhead at [colleen.fairhead@aeso.ca](mailto:colleen.fairhead@aeso.ca)

by April 12<sup>th</sup>, 2006

Yours sincerely,

*(Original Signed By)*

Kent McDuffie  
Vice President, Market Services

Attachments

## TMR Price Reconstitution – Summary of Key Issues

### 1) Policy Issues

The Policy Framework establishes that “the current treatment of TMR in calculating Pool Price is problematic and has significant impact on Pool Price fidelity” and recommends “reconstituting the clearing price for all instances where TMR is employed on an interim or temporary basis.”

Stakeholders have registered varying degrees of both support and opposition to this recommendation in various forums with both the AESO and the ADOE over the past year. We recognize that there are diverse views amongst stakeholders as to the appropriateness of this particular recommendation. However, TMR Price Reconstitution still forms part of existing ADOE Policy and we are proceeding with the implementation of ISO Rules in support of this recommendation.

TMR Reconstitution will require a specific amendment to the Transmission Regulation prior to its implementation. As such, it is possible that TMR Reconstitution will not be implemented simultaneously with the rest of the “Quick Hits” recommendations.

### 2) “Constrained-Down” Payments

Some generators have suggested that the price reconstitution methodology proposed is deficient in that it does not include a provision for a payment to be made to the generator on the margin that appears to produce less energy than it would have produced if the TMR service provider was not producing out-of-merit energy.

We recognize that the mechanics of the proposed methodology could be improved by the inclusion of a “constrained-down” payment for the generators on the margin. However, it is our view that the inclusion of a constrained-down payment would violate an important principle regarding the transmission system in our market construct.

The transmission system is not available all of the time - suppliers should not have the expectation of “guaranteed access” to the market. Therefore, in our view, it is not appropriate to pay a constrained-down payment to a supplier that is not able to access the energy market as a result of a transmission constraint. The use of TMR is an interim measure to attempt to alleviate a transmission constraint in order to ensure the reliable operation of the transmission system. Furthermore, it is expected that the direction established by the Transmission Regulation will minimize the need for TMR services in the long term. As such, it is also our view that it is not appropriate to include constrained-down payments to suppliers as part of the TMR reconstitution methodology.

### 3) Managing Unintended Consequences

It is difficult to extrapolate the direct impact of TMR reconstitution on the pool price. In order to manage this competing views and concerns, there will be a formal review of the impact of TMR Price reconstitution approximately 6 months after the initial implementation of the Rule.

#### 4) Reference Price

When a generator is dispatched out-of-merit to provide TMR service, it has the effect of essentially placing an equivalent block of energy at the bottom of the energy market merit order – analogous to a zero offer block – with the impact of suppressing the pool price.

The purpose of the reference price is to essentially “re-insert” this block of energy into the energy market merit order at a level that more appropriately represents the units providing the TMR energy.

The units that currently provide TMR on the system typically have variable operating costs in the range of 10 to 15 times the value of natural gas on a typical day. Given that the TMR providers typically receive out-of-market compensation for their fixed and variable costs (including a rate of return on capital) it is our view that an appropriate reference price for TMR would be in this same range.

There is still some debate as to whether or not the reference price multiplier should be a static value between 10 and 15 times the daily gas price or a dynamic number varying hourly or daily between 10 and 15 times the daily gas price.