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May 28, 2010

Ms. Ruppa Minhas
Alberta Electric System Operator (AESO)
Calgary Place
2500, 330 - 5th Ave SW
Calgary, AB T2P 0L4

Dear Ms. Minhas:

On April 29, 2010 the AESO issued a discussion paper to initiate broad stakeholder consultation on several proposals on how to manage the dispatch of equal priced offers at the $0 price floor. Nexen would like to offer the following comments on the AESO's Supply Surplus discussion paper. While the AESO was seeking comments on both the short term and long term options proposed in the paper, Nexen's comments will focus on the proposed short term solutions. Nexen may comment on the long term considerations when they are discussed in the future.

Exemption Removal for Co-Generators from OPP 103

The AESO's Supply Surplus discussion paper outlines how and why changes to the treatment of supply surplus are needed to support the Fair, Efficient and Openly Competitive (FEOC) operation of the market, reliable operation of the electric system and compliance with legislative and policy direction. Nexen would submit that by removing the exemption for generating units primarily serving load or steam process, including those supplying industrial systems with an Industrial System Designation (ISD) from OPP 103, may in fact conflict with the AESO's fairness and efficiency goals.

Nexen appreciates that there are several factors that may lead to an increased amount of $0 offer energy on the AIES and the AESO's desire to respond to these factors to ensure compliance with its mandate. Unfortunately, it is unreasonable, unfair and inefficient to expect a market participant such as Nexen Long Lake which has extremely complex operations, multifaceted economics and lengthy response lead times to react to such a fundamental change in a reasonable time period.

As outlined in Nexen's April 21, 2009 comments to the AESO, all the components within the ISD including the generator are highly integrated and sudden interruptions in an integral component could have serious operational and economic impacts to the facility that are far greater than the reduction in electricity revenues. As the AESO can also appreciate the time and capital requirements required to design, construct and fund such a facility are substantial and the project's viability relies greatly on the rules and policies that are in effect at the time or in force in the foreseeable future.

While Nexen acknowledges that all market participants are not immune to market or policy changes, the fairness and efficiency in which a market operates is dependent upon a number of factors including the reasonableness of the signals sent to market participants and their ability to respond. Nexen submits it is unreasonable for a market participant such an ISD with such complex facilities, economics and extremely long lead times to respond to such important price signal change without incurring serious harm. If a market participant cannot respond in a timely manner or the costs are so prohibitive to respond and in turn is unduly harmed, Nexen would submit the proposed change is neither fair nor efficient.

Nexen's April 21, 2009 letter also outlined how a traditional electric generator and a power generator within in an industrial operation differ greatly in their operation and curtailment impact to their respective owners. The primary purpose of a cogeneration facility within Nexen's ISD is to produce steam which is then injected in the ground in order to extract bitumen. Electricity production is a by-product of the operation rather than the primary output. Curtailment of an ISD's generation cannot be considered in isolation, as curtailment to an ISD is curtailment of an entire integrated operation which can have significant negative economic and operational impacts on the entire site.   Nexen would submit the technical variations between a traditional power generator and an ISD co-generator along with the disproportionate outcome as a result of a curtailment instruction from the AESO represents a fundamental distinction between the two entities and warrants the co-generation facility exemption in OPP 103.

Nexen respectfully submits the rationale outlined above along with comments in our April 21, 2009 letter are still valid and strongly supports the need for an exemption in OPP 103 for co-generation facilities which produce electricity and steam as an integrated component of an industrial operation. Although Nexen feels there is sound rationale to uphold the exemption, if the AESO feels compelled to pursue the removal of the exemption, the AESO must grandfather existing co-generation facilities and allow other market participants yet to construct such facilities a reasonable amount of time to react to this important policy change.

Exemption Removal for Wind Generators from OPP 103

Again, while Nexen appreciates the AESO's concerns and goals as it relates to the dispatch of equal $0 priced offers, the same concerns as outlined above apply to wind generation facilities. Nexen submits that having existing wind generators respond to change to a fundamental component of a wind generators economics is not fair or efficient.

Nexen is also concerned that having wind generators to comply with the same market rules as other generators may unreasonably be raising the barriers to entry for that particular resource. The AESO noted that an element of a FEOC market is that there is no preferential treatment of one generation resource type over another. Nexen would submit that asking a resource which currently has fundamental differences to other conventional generation technologies may unduly prejudice future development of wind generation. As wind generation technology along with Alberta's power market evolves there may be opportunities to pursue rules which see all market participants comply with the same set of rules. Until then Nexen respectfully submits that that are a number of other market considerations as outlined in the AESO's 2009 Market Operational Framework and 2010 Wind Integration Paper which should be contemplated prior to removing the exemption from OPP 103 or making it mandatory for wind generators to comply with all market rules.

Again Nexen submits that removing the exemption for wind generation in OPP 103 or pursuing uniformity of market rules for all resources may not be prudent at this time. If the AESO still feels compelled to pursue the removal of the exemption or insist on wind generators on complying with all market rules, the AESO must grandfather all existing wind facilities and allow other market participants yet to construct such facilities a reasonable amount of time to react to this important policy change.

Nexen appreciates the opportunity to comment on the AESO's proposals and hopes that the AESO will continue to engage all stakeholders in developing a solution which satisfies the needs and concerns of all stakeholders.

Sincerely,

Edward Hucman
Manager Regulatory (Power)

cc.   Diane Cameron, VP Regulatory
      Jay Dyson, Manager Power Marketing North America
      Tim Benko, Facilities Manager & Business Development