



Market Policy Framework

"Quick Hits" Implementation

Revised Imports Proposal

November 17, 2005

Background

The policy framework recommends that “To the extent possible, imports are to be treated the same as intra-Alberta generators”. A key component of this concept is that imports would be allowed to offer non-zero prices, and therefore eligible to set pool price, to the extent that the import is dispatchable.

The original proposal contemplated synthetic dispatchability by pairing an import schedule with a dispatchable intra-Alberta generating unit. The concept was that the intra-Alberta unit would be dispatched down instead of the import schedule to the extent that the import schedule became out-of-merit resulting in an Energy Market Dispatch instruction.

We have received a broad range on comments on this proposal. Most of the comments are generally supportive of the concept, but many also question the mechanics and impacts of the specific proposal. Here are some of the recurring themes:

- 1) Bilateral contracting for dispatchability services is seen as a barrier to participants that are unable to self-supply.

Participants are concerned that a) the proposal is administratively burdensome and has unclear standards with respect to compliance, b) the proposal would result in unreasonable costs, and c) there is may not be adequate available supply of the dispatchability service.

- 2) The effectiveness of the proposal is questionable even for self-suppliers.

For a self supplier the current proposal is essentially swaps an equivalent volume of a higher priced unit for a lower priced unit without discernable benefit. Under the current proposal, the import will be allowed to offer price but another unit of equal volume will need to offer such that it is simultaneously in-merit.

- 3) T-60 notification to importers is contentious.

Participants are concerned that importers will gain a competitive advantage though advance notice of the expected pool price. Participants are also concerned that importers told that they will be out-of-merit at the beginning of the settlement interval are released of their “must comply” obligations and that intra-AB generators do not receive the same treatment. Participants are also concerned about the credibility and consistency of AESO price forecast that will be used to determine which importers will be in-merit.

The revised proposal contemplates a system based dispatchability product. We feel that the revised proposal addresses the above concerns, and provides for greater overall economic efficiency by ensuring economic dispatch of the system.

2.2 Treatment of Imports as Intra-Alberta Generators

The Policy Framework recommends “To the extent possible, imports are to be treated the same as intra-Alberta generators” (page 39*). The purpose of this Term Sheet is to clearly define the key terms and conditions associated with this recommendation as follows:

Operating Blocks: An import Source Asset will consist of seven Operating Blocks.

Non-Zero Price Offers: An import Operating Block will be eligible to submit a non-zero price offer in accordance with the conditions outlined in this Term Sheet.

Must Offer: An Importer holding firm transmission into Alberta must submit price quantity pairs to the Energy Trading System before noon on the day before the next Trading Day. All Available Energy must be submitted and may only be restated for an Acceptable Operational Reason.

The Available Energy submitted by an Importer holding firm transmission will be considered to be an existing transmission commitment for the purposes of determining the Available Transfer Capability.

The difference, if any, between the quantity of firm transmission held by the Importer less the Available Energy submitted by the Importer will be deemed to be released by the holder of the firm transmission and deemed to be available for the purposes of determining the Available Transfer Capability.

An Importer holding non-firm transmission into Alberta must submit price quantity pairs for the Source Asset’s Operating Blocks to the Energy Trading System at least two hours before the start of any Settlement Interval. All Available Energy must be offered and may only be restated for an Acceptable Operational Reason.

Energy Restatement: An Energy Restatement is a restatement of Available Energy. Available Energy may be restated at any time and may only be restated for an Acceptable Operational Reason.

Price Restatements: A Price Restatement is the restatement of price and/or redistribution of energy between Operating Blocks. An Importer may restate the prices associated with the Source Asset’s Operating Blocks at any time prior to two hours before the start of any Settlement Interval.

An Importer may redistribute energy between Operating Blocks at any time prior to two hours before the start of any Settlement Interval.

Price Restatements will not be allowed within two hours of the start of any Settlement Interval.

- Merit Order:** The System Controller will establish the Energy Market Merit Order approximately two hours prior to the start of each Settlement Interval. The Energy Market Merit Order will include all the offers to import on firm transmission.
- The Energy Market Merit Order will also include the lowest priced offers to import on non-firm transmission up to the Available Transfer Capability.
- T-70 Notification:** Importers that are expected to be in-merit for the Settlement Interval will be notified approximately 70 minutes prior to the start of the Settlement Interval. The expected Pool Price for the Settlement Interval will be posted simultaneously and will be visible to all market participants.
- Must Comply:** Importers that are expected to be in-merit will submit eTags to the System Controller at least 30 minutes prior to the start of the Settlement Interval.
- The System Controller will use the Energy Market Merit Order to provide Importers with any additional Energy Market Dispatch instructions within each Settlement Interval.
- If an Importer does not comply with an Energy Market Dispatch instruction, the import Operating Block will be Out-of-Merit.
- Out-of-Merit:** If an import Operating Block is Out-of Merit, the highest priced in-merit dispatchable operating block(s) will be dispatched down by an amount equal to the quantity (in MW) associated with that Out-of-Merit import Operating Block.
- The Out of Merit Importer will pay an Out-of-Merit Dispatch Payment to the in-merit dispatchable operating block(s) dispatched down in place of the import Operating Block.
- The Out-of-Merit Dispatch Payment will be the quantity (in MW) dispatched times the difference between the Pool Price less the Offer Price of the in-merit Generating Unit dispatched in place of the import Operating Block for the period that the import Operating Block is Out-of-Merit.
- Reconstitution:** During the Settlement Interval the System Marginal Price will be reconstituted as the price of the highest priced Operating Block that would have been required to meet the AIES Demand for the period that the import Operating Block is Out-of Merit.
- The Pool Price for that Settlement Interval will be calculated as the average of the 60 one minute reconstituted System Marginal Price values determined for each minute of the Settlement Interval.