

TransAlta

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December 18, 2006

Alberta Electric System Operator
2500, 330 5th Avenue SW
Calgary, Alberta T2P 0L4

Attention: Mr. Kent McDuffie

Subject: Comments on Quick Hits Workarounds

TransAlta appreciates the efforts the AESO has taken to provide participants alternative options to the TMR price reconstitution and allowing imports to act as intra-Alberta generators. TransAlta provides the following comments in relation to the Proposed Workarounds.

TMR Price Reconstitution Workarounds

We do not agree that generators should pay for the proposed decrement down service ("DDS") and believe these costs should be borne by the customer. However, as this approach creates an improved price signal for investment and takes away a portion of the price depressing impact of TMR, TransAlta is supportive of the AESO moving ahead with this workaround.

Imports Acting as Intra-Alberta Generators

TransAlta agrees with the recommendation of the AESO to defer changes to import rules to ongoing discussion of dynamic scheduling on the interties and to continued examination of options to make the intertie more dispatchable. We appreciate that the AESO has recognized the importance of treating imports and intra-Alberta generators on a level playing field.

A portion of TransAlta's previous submission to the AESO prior to the approval of the April 3rd version of the quick hits is provided as follows to explain TransAlta's concerns with the previous import proposal of the quick hits package.

As an existing and builder of future generation in Alberta we have concerns with your previous import proposal. It gave importers preferential treatment over Alberta generators because importers do not bear the full cost of their DDS. As a potential builder of new generation it has the potential to impact long term adequacy by providing existing importers with dollars that should

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have been available to current and future intra-Alberta marginal generators. TransAlta is supportive of importers pricing above zero in the merit order but not at the expense of intra-Alberta marginal generators.

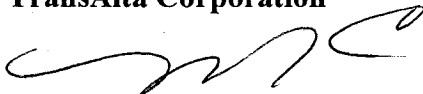
The "previous import proposal" did not go as far as possible to ensure that imports and intra-Alberta generators are treated the same. The DOE's June 6, 2005 "Alberta Electricity Policy Framework" paper on page 39 specifically recommends: to the extent possible imports are to be treated the same as intra-Alberta generators. The recommendations go on further to say, "in the near term this will mean that importers wishing to set pool price will have to make arrangements for an intra-Alberta generation to accept an energy market dispatch during the delivery hour. In the previous proposal the marginal generator absorbed a portion of the costs of the importers DDS, the importer got part of its DDS for free and the value of this service was kept by the importer. In the previous proposal, a generator who would "otherwise" be in merit and on the margin was not and further received no compensation for his lost opportunity or costs. The previous proposal provided importers with preferential treatment over intra-Alberta generators. The importer must pay the full cost of its DDS for the AESO proposal to be consistent with the DOE's recommendation that importers are treated the same as intra-Alberta generators to the extent this is possible.

The previous import proposal was not consistent with the goal of price fidelity. It did not provide an appropriate signal to the marginal generator. Specifically the marginal intra-Alberta generator's opportunity to run and increase revenue/profit was given to the importer. The importer got a portion of its DDS for free and put the value of that service into its pocket. This is truly an example of getting your cake and eating it too. In this way the proposal shall impact long term adequacy by providing to existing importers dollars that should be available to current and future intra-Alberta marginal generators.

Thank you for the opportunity to provide comments on your "workaround version" of the quick hits package.

Sincerely,

TransAlta Corporation



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