

Revised AESO Recommendation Paper - Operating Reserve Market Redesign
Stakeholder Comment Matrix
April 1, 2010

The AESO has released a revised Operating Reserves Market Redesign Recommendation Paper in response to feedback received on the January 2009 Recommendation Paper. Given the changes made to the recommendations, the AESO is soliciting stakeholder feedback on the revisions by April 16th, 2010. The changes from the previous paper are highlighted in the matrix below.

These Comments are provided by Marcy Cochlan on behalf of TransAlta. If there are any questions or concerns please call Marcy Cochlan at 403-267-4664 or email marcy_cochlan@transalta.com.

Section	Subsection	Stakeholder Response
<p>3.2 Market Framework</p>	<p>3.6.2 Add to the Suite of D-1 OR Products</p> <p>Hourly products are the revised recommendation for both Active and Standby instead of a shaped product with selling logic.</p>	<p>TransAlta continues to look for development of a market beyond D-1 to sell Ancillary Services. We are hopeful the AESO will take steps over time to allow for products to be developed that would allow for trading out in the 1 month to 1 year time frame. The movement to D-1 does not allow for any forward hedging of these products.</p> <p>The movement of OTC products to hourly shaped products is manageable for TransAlta as long as the time frame remains at the shortest interval of D-1. We are concerned that the AESO is considering movement to T-2 timeframe in the future. This would create the need for all participants in the market to staff 24 hour a day desks. This is not an insignificant cost. The cost of a 24 hour desk is ball parked at 1 million dollars per annum. Further, there would be significant changes required to the forecasting and management tools especially for hydro facilities. We would ask that the AESO look at all available options rather than focus on the solution of T-2 for phase 2 if required.</p>

	<p>3.2.3 Standby Baseload On and Off Peak</p> <p>Premium is set based on a clearing model rather than pay as bid. Premium establishes a merit order for activation.</p>	
<p>3.3 Procurement Process and Timing</p>	<p>3.3.2 A reasonable procurement schedule</p> <p>The trading schedule has been revised. The revised schedule has 10 minutes between closes for baseload markets and 20 minutes between closes for hourly markets.</p>	<p>TransAlta can accept the proposed procurement schedule as long as all bids for all markets can be submitted before the open of the first market. This reduces the administrative burden and chance for errors in comparison to having to input offers for each market just prior to the close of that market.</p> <p>However, we do have concerns with the continued necessity to assign units before the close of trades. We believe it would reduce errors and simplify the process if this occurred shortly after close of the market. We would like to see the use of a virtual unit, or the ability to just put out offers and volumes then assign an asset to the volumes after trading. This may also help with the tight timelines as the asset allocation could be done after the market closes.</p>
<p>3.4 Market Framework</p>	<p>3.4.4 5 MW minimum blocks</p> <p>The AESO will consider assets less than 5 MW for participation in the Supplemental market. Aggregators will also be considered. The ISO Rules consultation will further develop these concepts and standards.</p>	<p>One problem with the current market system is that if a seller sells less than 5 MW, it is able to turn back these MW to the AESO and essentially break the trade. However, despite the fact that this trade is broken these MW's contribute to the clearing price. In our opinion, this behavior sends a negative price signal to the market. Essentially it allows participants to offer a price with no risk that they will actually have to provide them if their top block is not met. For example, a participant could price 3 MW at -\$900 and then 1 at -\$100 and 1 at -\$40. If the price clears at -\$50, the participant will have sold 4 MW and can simply turn these back to the AESO having risked nothing. However, the 4 MW that were in merit now are broken and yet contributed to the determination of the final price. These broken trades should have no influence on the final</p>

		<p>market price.</p> <p>The AESO appears to attempt to address this issue in sections 3.4.4 and 3.4.5, however, we believe the AESO needs to go further ensure that partial blocks that are ultimately not delivered cannot set the price. In section 3.4.5 the AESO recommends "...that a seller's first block must be at least 5 MW." This implies that the first block is the lowest price block. This should be clarified. In addition, this first block should explicitly be an inflexible block - either all of it is taken or none of it is taken. This will prevent the case where a seller's first block is the one that clears the market, but only with 2 MW thus allowing the seller to turn the MW back to the AESO but still setting price. (Flexible and inflexible blocks are discussed in section 3.4.6). Thus, if my lowest price block of 5 MW would clear price but with only 3 MW, my block is passed over and the next higher priced acceptable block sets price.</p>
<p>3.6 Multiple Buyers</p>	<p>3.6.2 AESO facilitate third party asset substitution</p> <p>There are issues concerning confidentiality of sellers that must be resolved prior to enabling third party asset substitution. The AESO is committed to finding a practical solution for third party asset substitution and will continue to pursue this issue.</p>	<p>We would like the AESO in this redesign to consider separation of when AS volumes must be assigned to a specific unit and the actual trading of operating reserves products. The current system which requires that we determine before trading which asset to provide which amount of what service from creates an unnecessary administrative burden and leads to unnecessary trading errors that could be avoided if assignment took place after the close of the last reserve product.. We would propose that participants sell the MW's in the market and that shortly after close assignment for provision of the services is determined.</p>
<p>5.0 Consultation and Implementation Process</p>	<p>5.0 Phased Implementation</p> <p>Following the comment period, the AESO plans to initiate changes to the</p>	<p>Beyond the two changes proposed in Q2 we believe that all changes in Phase 1 should be implemented together. If it is done in a phased manner there will be concerns as to how implementing only parts of the design change will create winners</p>

	<p>OR market design in a phased manner. It is expected this will facilitate a smoother transition to the revised market design.</p>	<p>and losers between the competitors in the market.</p>
	<p>5.1 Changes to Current Practices</p> <p>The first step in the OR Redesign is to move all procurement to D-1 within the current market design. In addition, the AESO will begin improving the transparency of the OTC market by providing pricing information after the close of the OTC market.</p>	<p>TransAlta would ask for more clarity and some consultation on proposed changes to Transparency on the OTC market before these changes are implemented.</p> <p>We would also point out that moving to “D-1 only market” increases the risk for both the participant and the AESO that an error in the ETS system could result in a participant not offering the amounts intended. Under the proposed design you only have one chance to get it right. In others words larger consequences for an error in trading. We would encourage the AESO to test proposed IT changes thoroughly to ensure that the likelihood of these errors is extremely low.</p> <p>A suggested IT change is an upload to NGX. The AESO should provide for the ability to upload offers to the NGX market using a simple and standardized template that reduces the need for multiple uploads. Ideally the template would be a straightforward CSV files similar to what is used for ETS uploads. The current files that are uploaded to NGX are fairly simple and can only be used for one market at a time. We would like to see something more sophisticated so you can upload everything at once.</p>