

Appendix B

AESO Recommendation Paper - Operating Reserve Market
Redesign
Stakeholder Comment Matrix

TransAlta appreciates the opportunity to comment on the proposed OR Market Redesign.

Please direct any questions to Marcy Cochlan @ (403) 267-4664

Section	Subsection	Stakeholder Response
3.1 Market Framework	3.1.1 Create a single trading platform to concentrate liquidity and establish more meaningful OR price indices	TransAlta supports the AESO moving to a single trading platform and believes this will lead to a reduced administrative burden for participants and the AESO. Further, it will provide clarity around all products traded, associated rules and timelines. This has been unclear with OTC products in the past.
	3.1.2 Minimize AESO influence - submit bid volume requirements in auction format	TransAlta does not believe that it is necessary for the AESO to reduce its influence in the market. We believe that the AESO created a viable forward market and are concerned that the movement to D-1 will result in all transactions occurring there. We understand that the AESO is reviewing Third Party asset substitution and Self Procurement but are skeptical if and when these will be implemented and even then are unsure if they will result in a viable forward market.
	3.1.3 Minimize AESO influence - D-1 auctions	TransAlta does not believe that it is necessary for the AESO to reduce its influence in the market.
3.2 Market Products and Pricing	3.2.1 Add to the suite of D-1 OR products	We support the addition of Profile Active OR and Shaped Standby OR to the list of NGX traded products.
	3.2.2 Continue to use On/Off peak products	We support the continued use of On/Off peak products.

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	instead of hourly products	
	3.2.3 OR indexed to pool price, marginal pricing for homogenous products and pay as offered for non-homogenous products	
	3.2.4 OR market price cap equal to energy market price cap	Ancillary reserves are a premium market and should be priced as such. Premiums can be capped at \$999 in correlation with the energy market, but total compensation should equal the premium plus the energy component. If total compensation equals greater than \$999, then the proper price signal is being sent to the market that more participants/reserves are required in the reserves market. If total compensation is capped at \$999, as the SMP approaches \$999, participants will be less motivated to provide reserves as it is much easier, and just as lucrative, to provide energy as it is reserves. Thus, as SMP approaches \$999, when reserves are needed the most, reserves will likely be less available. By allowing generators the opportunity to earn greater compensation in the reserves market, as compared to the energy market, the proper price signals will be sent encouraging current and future market participants to fit/retro-fit their operations to supply operating reserves. This philosophy is consistent with a deregulated market design.
3.3 Procurement Process and Timing	3.3.1 Apply selling logic for profile and non-standard offers	No concerns
	3.3.2 A reasonable procurement schedule	We support the AESO's proposed schedule. We would suggest a review of the schedule once it has been in place for a year. This would allow any needed changes to be considered.
	3.3.3 Fix market closes and create price discovery	We support the use of blind offers with a fixed market close. This will reduce the administrative burden on participants and will provide for price discovery. We believe that having a fixed market

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		close provides for sufficient price discovery.
3.4 Market Participation and Obligations	3.4.1 No must offer requirement	We support this approach
	3.4.2 Remove virtual units	We do not have not concerns with the removal of virtual units
	3.4.3 Standing offers facilitated by blind offers	We support this approach. We assume the current 5 minute lock down before close will be removed but would like clarity on this
	3.4.4 5MW minimum blocks	TransAlta is concerned about a design feature that allows participants to submit initial offer volumes less than the minimum allowable 5mws. We believe that this is inconsistent with an efficient market design to allow market participants to place small offers which will be cancelled by the AESO due to a minimum size requirement. We therefore strongly encourage the AESO to propose a minimum offer block size of 5mws on a participant's first offer block. The clear benefits will be increased efficiency and transparency by allowing the last MW's transacted to always set the price. Any subsequent 1mw offers would always be accepted as they would be added to the participant's base block of 5mws. This will eliminate phantom offers and help hold participants accountable for the offers they provide.
	3.4.5 No limitations around price/quantity pairs	No limitations except for volume on the first price/quantity pair – see 3.4.4
	3.4.6 Allow for flexible and inflexible offers in most cases	We support this approach
	3.4.7 Inter-ties participation unaffected	
	3.4.8 Dealing with conflicting ancillary service obligations	We do not believe participants should be able to sell the same product twice. This is inconsistent with the basic fundamental

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		concepts of a market design. One should not be able to break an existing obligation so that it can be provided for another obligation.
3.5 Dispatching and Technical Terms	3.5.1 All active OR providers dispatched. Standby providers dispatched as needed	
	3.5.2 Technical Standards process unchanged	
	3.5.3 Testing	We suggest that units which provide OR today and meet the stated technical standards should not have to test once approved. The initial approval to provide OR may require testing. Once approved the AESO should track performance. If there are issues with performance the AESO should require testing. If the AESO does require a regular testing schedule the AESO should pay for this testing as they do today.
3.6 Multiple Buyers	3.6.1 Facilitate Self Supply by financial arrangements	We support this initiative.
	3.6.2 AESO facilitate third party asset substitution	We would like to see the AESO commit to implementing this versus merely reviewing it. It is an important design component that will foster a viable forward market and reduce risks of participation for sellers to an acceptable level.
3.7 Out of Market Actions	3.7.1 Exhaust market solutions prior to conscripting OR providers	We strongly support this initiative.
	3.7.2 Process required for conscripting OR providers	As previously stated, the process should be based on fairness and not allow for the same OR participant(s) to be conscripted each time. There should be a rotating list that the AESO uses for conscripting providers to ensure the same provider is not always called upon. All OR participants, with respect to a generators capabilities and past bidding behavior, should be subject to having to provide their services. For example, if an OR participant has

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		<p>historically (i.e. in the last year or the last 3 months) participated solely in the supplemental market, they should not be on the conscription list to provide Reg or Spin. However, if they are physically capable, and have participated (bid/offered) recently (within xx months) then there would be an obligation to serve. Refusal for conscription cannot be an economic decision. The entire conscription process should be public and visible including how often the AESO is relying on conscription, which participants are on the list, and when they have or have not provided reserves through the conscription process.</p>
	<p>3.7.3 Consult on market suspension process and rule</p>	<p>We agree consultation is necessary.</p>
<p>3.8 Compliance and Market Integrity</p>	<p>3.8.1 Remove perverse incentives, provide clarity around acceptable/unacceptable behavior and potential consequences</p>	<p>TransAlta is concerned that if penalties are set too high, this could become a barrier to entry into the market. We agree with the AESO that clarity is a reasonable goal.</p> <p>If the AESO intends to create many new rules for the OR market, significant consultation will be required on this including issues of compliance measurement specifications and compliance rules. We would suggest that the implementation of the OR market redesign requires completion of OR compliance rules before implementation. Otherwise it leads to a lack of clarity for participants as to how they will be dealt with. This is not something we would be comfortable having completed after implementation of the Operating Reserve Redesign. It is an important component that needs be done at the same time.</p> <p>Further the AESO should realize that their dispatching of energy, regulating reserves, operating reserves and directives for operating reserves can be overwhelming for a unit operator to manage. The AESO has a computer calculating all the dispatches</p>

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		<p>and unit operators receive many simultaneous dispatches that the operators must comply with. A few minutes later (often the top of the hour) all the dispatches may be rearranged and we must comply with those. It may be next to impossible to comply under these conditions and perform other necessary tasks. Most units or pairs of units have one individual performing all these tasks. The additional cost of having an additional operator available 24 hours a day could easily be 1 million dollars. We would like the AESO to consider this cost in designing compliance tools and metrics. We believe the increased cost to participants for this and other rules such as the dispatch variance rules and the increased cost of compliance must be considered in the development of the parameters for compliance. That is, the AESO should consider that the stricter the rules and compliance bands, the more likely it is this would require generators to have additional operators which comes at a significant cost. Has the AESO considered this cost and an increased complexity to operators of generating units in making this recommendation?</p>
	<p>3.8.2 Continue to use force majeure definition in NGX Agreement</p>	
	<p>3.8.3 Improve transparency of OR providers</p>	<p>TransAlta would like the AESO to consider publishing offer data with the identity of the bidder camouflaged, and with at least a seasonal lag (i.e. 3 months) rather than in real time or in 60 days, in order to prevent giving certain market participants an unfair competitive advantage. After a 3-month period, market conditions should have changed sufficiently so that the information is dated and no longer useful for exploitation.</p> <p>1) Publishing of bid data has been approached very conservatively in the US. FERC has generally been</p>

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		<p>comfortable with a 4 month lag on transaction and contract data (EQR data release schedule), and a 6 month lag for actual bid data (always with identities masked). The exception to the delay period is ISO-NE, who has recently been approved to release bid data (but with identities masked) with a 3 month lag. Much of the cautious attitude to hiding identities and releasing the bid data with a lag is hinged on preventing tipping the balance in favour of certain market participants and undermining price-taking behavior. FERC has also prohibited collusive behavior – explicit and tacit. Immediate release of bid data will provide very timely and detailed information about all market participants’ bidding strategies and may also reveal their short-term market positions.ⁱ The AESO must consider the benefits and costs of releasing data. Early release of data cannot always be assumed to be a good thing.</p> <p>2) The US Department of Justice has warned FERC about the use of disaggregated competitively sensitive data, noting that “extensive disclosure of customer-specific information will allow utilities to observe the terms on which their competitors do business, increasing the likelihood of collusion and higher prices for electricity consumers.”ⁱⁱⁱ</p> <p>3) In contrast, the Public Utility Commission of Texas (PUCT) has distinguished themselves as a non-FERC jurisdiction and required the release of un-masked bid/offer data for their residual BES market within 1 month, on the premise that this will help the market monitor as the market will “police” itself. Although the PUCT considered the Australian (NEMMCO) model – release of bid data the next business day - PUCT was also concerned about the possible harm that could result to individual participants, as well as for the market as a whole.</p> <p>The current design reflects an appropriate level of transparency.</p>

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		<p>It currently identifies how much reserves are being provided by particular units but does not identify which type. Providing information about the type of reserves being provided by which unit 3 months after real time would be unnecessary and could be detrimental to the market. Has the AESO considered the costs and benefits of providing this additional transparency to the market in real time, particularly when there appears to be little benefit to this?</p> <p>The AESO needs to be careful to balance transparency and stakeholders need for confidentiality and the impact on the market of disclosing confidential information. The operating reserves market is a small market and this needs to be taken into consideration when publishing data related to provision of reserves. We encourage the AESO to consider provision of this information on a 3 month lag basis instead of in real time. We would ask the AESO to provide justification for why this is needed given the careful balance they must strike.</p>
3.9 OR Market in ISO Rules and Contractual Items	3.9.1 Documentation of OR Rules	<p>We are concerned about the impact of specified penalties on participation in the market We would encourage the AESO to continue using the NGX contracts and put only what is necessary into the rules. TransAlta does not believe AUC Rule 019 is required for compliance in the OR Market.</p>
	3.9.2 Amendments to the NGX and Over the Counter (OTC) Agreement	
	3.9.3 OTC Agreement	
4.0 Policy Coherence		
5.0 Consultation and	5.1 Implementation of Administrative Improvements to NGX	

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Implementation Process		
6.0 Post Implementation Process	6.1 Post implementation review	There are still many details that are required to bring the concepts outline in the AESO paper to fruition. We would suggest some consultation occur before publishing of draft rule.
	6.2 Phase II	We agree that Phase II suggestions be considered at a future date as required

ⁱ Energy Policy Act of 2005 had “market transparency” provisions that required that FERC specifically take into account the danger of collusive behavior when determining what information to release and the timetable for release, noting that “[i]n determining the information to be made available under this section and time to make the information available, the Commission shall seek to ensure that consumers and competitive markets are protected from the adverse effects of potential collusion or other anticompetitive behaviors that can be facilitated by untimely public disclosure of transaction-specific information.” *See* Energy Policy Act of 2005, H.R. 6, 109th Cong. § 1281 (220)(b)(2) (2005) (enacted). However, even prior to the Energy Policy Act of 2005, FERC had recognized that revealing pricing information too quickly could lead to anti-competitive effects. Specifically, in establishing quarterly reporting requirements for wholesale electricity transactions in 2002, FERC weighed this concern with its desire for market transparency in requiring such reports 30 days after the end of the quarter: “The Electric Quarterly Reports will be filed 30 days after each calendar quarter. This time delay will greatly reduce the usefulness of the data as a tool for collusion but gives customers data they need for long-term decision making.” *See* 18 C.F.R. Parts 2 and 35 Revised Public Utility Filing Requirements, 99 FERC ¶ 61,107, P15 (2002).

ⁱⁱ Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority, FERC Docket No. RM04-14-000, Comments of U.S. Department of Justice (November 15, 2004).