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Mr. Kris Aksomitis  
Market Services  
Alberta Electric System Operator  
2500, 333 4<sup>th</sup> Avenue SW  
Calgary, AB T5K 2B6

**RE: Alberta Wholesale Market Price Cap Discussion Paper**

Dear Mr. Aksomitis,

TransAlta appreciates the opportunity to comment on the Alberta System Operator's (AESO) Wholesale Market Price Cap Discussion Paper.

TransAlta does not agree with the conclusions arrived by the AESO regarding this matter. The Wholesale Market Price Cap Discussion Paper appears to focus on the appropriateness and ability of the price cap to signal investment in the past rather than address Alberta's future needs and the rising costs associated to meet those needs. The AESO, in rendering its conclusion that changes to the price cap are unneeded, is suggesting that the current investment signal for past generation decisions will be adequate for future demand. A significant amount of generation in Alberta will need to be replaced by 2020-2025. The decisions on how to replace that generation will likely be made by 2015. The time to discuss this issue is now. While TransAlta appreciates the work done so far, the work itself appears to have been deliberated without consideration or detailed analysis of the role of inflation and price responsive load. TransAlta considers this paper an important first step in this discussion; however, before the AESO publishes conclusions or opinions, we would ask that a more comprehensive view be adopted.

**AESO Mandate and Price Cap Policy**

**Static Price Cap in a Dynamic Market Place**

The Department of Energy's 2005 Electricity Policy Framework<sup>1</sup> articulated a number of principles for the market, including:

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<sup>1</sup> Alberta's Electricity Policy Framework: Competitive – Reliable – Sustainable. Alberta Department of Energy, June 6, 2005, Page 8.

- The market framework must be guided and founded on fair and sustainable market and competitive forces.
- The market framework must provide market signals to build new supply in a timely manner to meet growing demand while recognizing the lead-time required building new generation.
- The market framework must continue to preclude the exercise of market power and unwarranted transfer of wealth

A market framework guided and founded on fair and sustainable market and competitive forces cannot be static. Competitive forces by their very nature are dynamic. The AESO recommendation for the price cap to remain static and/or capped is inconsistent with both economic theory and TransAlta's expectation of the AESO's role and mandate. How can a sustainable market design fail to reflect dynamic fluctuations in resource, labour, environmental, and fuel supply costs? The AESO should not artificially constrain price outcomes emanating from the legitimate intersection of supply and demand.

The AESO's primary mandate is reliability. A market framework that provides proper market signals to build new supply is integral to reliability. Market forces are changing rapidly in Alberta. The environmental costs of the industry may soon outweigh traditional production costs. A static price cap impedes investment signals without recognizing the long lead-time and cost required to retrofit existing generation and/or build new generation.

TransAlta therefore recommends:

At a minimum, the AESO consider moving the price cap to \$2500 and that a pricing index be used over time to adjust the cap for changing costs in Alberta. TransAlta would also ask the AESO to consider complete removal of the price cap by 2015. This would give the market time to adjust to this change and provide the right price signal for the significant amount of generation that will require replacement by 2020-2025. The decision for this replacement will be made in 2015 or sooner.

TransAlta appreciates the opportunity for our comments to be taken into consideration.

Thank-you,



Darren Gogol  
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