



450 - 1 Street, S.W.
Calgary, Alberta, Canada T2P 5H1

Tel: (403) 920 5422
Fax: (403) 920 2340
E-mail: jim_paton@transcanada.com

April 16, 2010

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

Attention: Kris Aksomitis, Program Manager, Market Services

Dear Mr. Aksomitis:

**Re: Alberta Electric System Operator (“AESO”)
Operating Reserves Market Redesign Recommendation Paper (“OR
Recommendation Paper”)
TransCanada Energy Ltd. (“TransCanada”)**

TransCanada appreciates the opportunity to provide the following comments on the AESO’s OR Recommendation Paper.

As a general comment, TransCanada is concerned about how few improvements to the OR market are included in Phase I. TransCanada believes the proposed staged approach to redesigning the OR market will not allow it to advance quickly enough to meet the needs of the market, given the time involved in implementing and reviewing the Phase I changes, followed by the consultation on and implementation of Phase II solutions. Across the continent, the importance of OR is growing as electrical systems begin to integrate substantial quantities of intermittent resources. TransCanada recommends that the AESO reconsider the proposed staged approach and pursue more significant improvements at this time.

TransCanada also provides the following specific comments in response to the OR Recommendation Paper:

1. AESO Recommendation 3.2.3: OR indexed to pool price with a marginal price model

TransCanada believes that the “close relationship” between the OR and energy market described by the AESO is debatable today and that the two markets are likely to become even more disconnected over time for the following reasons:

- When wind output is high, load may be high or low. As a result the energy price may be either high or low but ramp up capability from other resources will need to be higher than normal. This suggests that the OR prices should

- be independent of energy price; and
- The willingness for load to be curtailed is often unrelated to electricity price. Load is therefore likely to want to know what they will be paid to take curtailment risk, without trying to guess electricity prices, so that they can choose an appropriate adjustment to the value. To the extent the AESO is desirous of new market supply it should tailor its products to the needs of more than just existing supply.

Therefore, TransCanada believes that the AESO should consider whether indexing to pool price remains an appropriate OR pricing mechanism for the future.

2. AESO Recommendation 3.2.3.4: Standby hourly activation price not equal to the corresponding active hourly price.

TransCanada disagrees with the proposal not to pay the same activation price for both products. The AESO's statement that allowing the standby hourly activation price to equal the corresponding active hourly price would have undesirable outcomes as a result of active hourly prices being higher than the active baseload on and off peak prices, ignores the effect of competition, and particularly what would be the effect of supply that cannot provide shaped products (on-peak and off-peak) but can provide an hourly product.

To illustrate we provide examples.

If all potential providers moved to the hourly market seeking higher prices then the total supply competing to sell the hourly product would be all of the potential shaped product suppliers and all of the hourly suppliers. The increase in total supply would then be greater than what would have been offered for the shaped product, which should produce lower prices. As well, the AESO would select the best offer in every hour. This also should yield lower total costs. Further, consider that, instead of all supply moving to the hourly market all but one high priced offer moved. Then the shaped product would settle at a very high price while the hourly market would settle lower.

Now consider what would happen the next day. With participants having seen the market results, there would tend to be a move to the shaped products market the next day. After all, prices were higher and the product (according to comments provided) is more convenient to supply. This would lead to all of the system needs being met using the shaped product, which the AESO apparently finds desirable. In the hourly market, regardless of price, there would be no sales. This volume risk in the hourly market is an adequate incentive for those that are able to provide the shaped product to do so.

The foregoing we believe clearly illustrates that there is no need to artificially lower prices for the hourly product. We also posit that it is undesirable to lower the price in

the hourly market because of the prospect of competition within the hourly market and of competition between the shaped and hourly market increasing the efficiency of both markets.

Importantly we believe having a more equal competition between those that can provide a shaped product and those that cannot, will attract or enable new supply to enter the OR market. The AESO should be cognizant that new supply will be needed in the OR market in the future and the rules should therefore be as accommodating toward new alternatives as possible.

3. AESO Recommendation 3.4.2: Removal of virtual units

TransCanada believes that removing virtual units reduces flexibility for providers and thereby reduces competition. If suppliers are concerned with trading errors, such suppliers could choose not to use virtual units. TransCanada does not support the removal of virtual units; however, if asset substitution (including 3rd party substitution) is permitted, the issue is more an issue of principle than practicality.

4. AESO Recommendation 3.5.3: Consulting with market participants to update obligations regarding the testing of OR facilities.

TransCanada supports consultation on testing issues.

5. AESO Recommendation 3.6.2: Third party asset substitution

TransCanada supports the development of third party asset substitution and believes there are practical solutions to implementing this market design feature. TransCanada believes the AESO need not be the intermediary for third party asset substitution or make third party confidential information available, as the AESO would only need to provide the mechanism for substitutions to be recorded and recognized on its systems. TransCanada believes suppliers could locate their own counterparties in order to execute a substitution transaction, or, if the need for an intermediary is required, TransCanada believes one would emerge in the marketplace.

6. AESO Recommendation 3.9: Revision of ISO Rule language

TransCanada will comment on the detailed language of the rule clean-up through its participation in the TOAD project.

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Kris Aksomitis
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If you require further information about TransCanada's comments, please contact the undersigned at (403) 920-5422 or jim_paton@transcanada.com.

Yours truly,

TransCanada Energy Ltd.

A handwritten signature in black ink, appearing to read 'Jim Paton', written in a cursive style.

Jim Paton
Director, Market Services