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Mr. Kris Aksomitis
Market Services
Alberta Electric System Operator
2500, 333 4th Ave SW
Calgary, AB T5K 2B6

RE: Alberta Wholesale Market Price Cap Discussion Paper

Dear Mr. Aksomitis;

TransCanada is pleased to provide the following comments on the above noted paper.

Our comments on the paper align with the headings and numbering used in the paper. These comments are provided within the context of this price cap discussion and the ideas and concepts may not be appropriate in other circumstances. The absence of a comment should not be construed as accepting of the assertions, observations or views put forward by the AESO in the paper.

For the ease of reading we note from the outset that TransCanada questions whether a price cap is required at all. As with many other commodities, there are no explicit price caps. However, recognizing the apparent need for one in the Alberta electricity market, TransCanada believes that if the price cap was to be changed it should be inflation adjusted based on linking it to an index that would serve as a proxy for new plant equipment cost escalation going forward.

1.0 Introduction

Without finding fault with the AESO for providing background statements we urge caution with respect to looking backward when planning actions for the future benefit of the Alberta electricity market. Major changes occurring in electricity markets throughout the world may mean a future with little resemblance to the past.

The statement *"Questions around what might happen if the cap was changed are not directly addressed in this paper"* constitutes a key reason for taking only the limited action we recommend at this time. While provided only to note correctly that the issues examined are a mere subset of those a significant change in price cap could have, this statement should be given great importance. Any significant change to the price cap could risk huge unintended consequences unless a fulsome review of its potential impacts was done. Such a review at this time would be distracting for participants and the AESO who should be working on other more important priorities, some of which would at least partially address the same issues as a price cap increase. Examples of these are restoring the capacity of existing inter-ties to their design capabilities, transmission reinforcement to address congestion and improving the Dispatch Down Service rules, all of which could improve the market function including the price signal.

The question of whether additional work should be done on the price cap was answered above. We believe the only subsequent effort should be to index adjust it and choose a StatsCan index and replace references to the price cap value in the appropriate documents with an indexing calculation. Such actions would increase certainty with respect to the future of the price cap and support future investment.

2.2 FEOC Market and the Price Signal

TransCanada notes an openly competitive market is the byproduct not only of the interplay of supply and demand but also of interchange with nearby markets. If the existing inter-ties could transfer energy at their design capacity as required by policy and regulation, the issues of the price cap would be far less problematic.

3.0 Frequency of Price Cap Events and Out of Market Actions

In subsection *3.1 Data and Analysis* and in subsection *3.2 Conclusions* the paper describes the lack of correlation between installed reserve margin and price cap events while continuing to discuss the effects of one on the other. A more accepted problem solving approach would have involved testing other values that may show the strong correlation that was expected from capacity margin. If another value was found to correlate more closely, as we suspect inter-tie transfer capacity would have done, the paper could have suggested we examine the problem of inter-tie capacity being far below levels required by policy and regulation.

4.0 Importance of Scarcity Pricing for Generator Revenues

This section provides interesting data and analysis but as a supplier, TransCanada notes that if one characterizes scarcity pricing as random then some key observations are missing. Among these is that scarcity pricing puts a high value on availability. The only way to capture value from random price spikes is to be available to produce while the spikes exist. This will have the effect of creating an availability incentive in our market. If a supplier wishes to avoid losing a significant portion of its annual revenue it must endeavor to be available as near to continuously as possible, a situation that is beneficial to reliability as well as to the earnings of the supplier.

Another observation that seems appropriate is that the high price per MWh that this analysis examines is the cost of the capacity necessary to maintain service during emergency or near emergency conditions. This high cost of reliability services is a characteristic of all markets and even of regulated electricity structures as opposed to something that is indicative of a problem to be solved, as some market participants view it

5.0 Generation Investment in Alberta

This section raised the concern of oversupply and the burden of hours where costs are not recovered but again, without pointing to inter-tie capacities as a key contributing factor.

In conclusion we thank the AESO for leading the stakeholder consultation on this matter and look forward to further discussion/input as required.

Regards,

{Original signed by Vince Kostesky for}

Jim Paton
Director Market Services

Cc: Ken Kunz – TransCanada
Vince Kostesky - TransCanada