



May 28, 2010

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Re: Supply Surplus Discussion Paper, April 29, 2010

Dear Ruppa,

TransCanada Energy Ltd. (“TransCanada”) appreciates the opportunity to comment on the Alberta Electric System Operator’s (“AESO”) Supply Surplus Discussion Paper dated April 29, 2010 (“Paper”).

TransCanada was an active participant in the Supply Surplus Work Group in 2007 and 2008 and since then has been anticipating the resolution of this issue. TransCanada provides the following comments on the Paper.

Primarily TransCanada believes that, at this time, the AESO should not expend further time and/or energy on short-term solutions to this situation but instead should continue to utilize the current processes. This would allow the AESO to focus on and expedite the implementation of long-term solutions. As pointed out in the Paper, there have been a number of instances where Supply Surplus has transpired and the current AESO process has been able to handle it. While the frequency and duration of these instances may increase in the short-term they will still be manageable with the current process, provided longer term solutions are pursued expeditiously.

Overall, in TransCanada’s opinion, addressing the root cause for 2/3 of the energy supply offers in the market being priced at \$0 is a more practical way to address the future surplus supply situations than what is proposed in the Paper.

Voluntary Curtailment Payment

Despite a general preference for market based solutions, TransCanada does not support this proposal on a principled basis. The forecast of supply surplus situations becoming more frequent is primarily the result of subsidized supply (imports, wind, Medicine Hat, government impacted) that are not subjected to the same AESO rules as other generators. For a generator to further

compensate its competitors to accommodate public policy objectives that are counter to its interests would not be fair. This would not be an issue if this compensation was a system cost.

In addition, TransCanada believes this approach could cause reliability concerns and create vastly different market outcomes. It is currently relatively common for generators to be operated at a loss for short periods on the basis that the losses are small and opportunities for profits will be missed if a unit is off-line. If supply surplus situations cause new costs for generators, these decisions would be affected and long lead time units may be off-line when needed by the system.

Finally, voluntary curtailment payments would be another instance of generators paying other generators not to run which TransCanada notes can be misused. As seen with the current Dispatch Down Service (“DDS”), pricing signals are not transparent and abuse can be too easily achieved in these situations. TransCanada is concerned that the existing problems with DDS have not been resolved and opposes introducing a proposal that could replicate those problems.

Market Rules for Wind

TransCanada prefers market rules being applicable across all types of generation. As noted later in the Paper, other markets, such as Australia, have successfully implemented rules requiring wind Generators to submit offers. Therefore, TransCanada questions the exemption of wind generators from Must Offer Must Comply rules.

Negative Offer Prices

TransCanada agrees with the AESO that based on the assessment of markets where negative offer prices have been implemented, this concept is not an appropriate solution for Alberta. In fact, it would lead to revision of the entire market structure to address a very infrequent situation which can be managed in many other ways with far less impact. TransCanada’s comments above pertaining to voluntary curtailment payments would also apply to negative price offers.

Supply Surplus Principles

The principles should acknowledge that co-generation facility process requirements are the primary reason these facilities were built, and even though the merchant electricity generation is dispatched off, some electricity generation may simply be an unavoidable by-product of the facility.

Similarly there is no principle to support treating any facility connected to the grid more favourably than others. If the site is a net consumer but has generation, the AESO has the right, responsibility and obligation to apply reliability rules to that facility in a manner that is comparable to other co-generation sites.¹

TransCanada disagrees that “Impact on neighboring jurisdictions should be minimal” should be a principle. TransCanada notes that cutting schedules as a relatively early step in the process while

¹ Electric Utilities Act - Sections 40, 30(3), 82(6) and 117, Transmission Regulation Sections 5 and 47.

a reasonable step and an accepted practice already, appears to violate the principle. TransCanada believes that the issues the AESO is attempting to resolve are likely to occur in adjacent Balancing Authorities as well and suggest that the AESO collaborate with those entities on solutions as it is entirely possible that reciprocal agreements between jurisdictions could lead to mutually beneficial outcomes.

Operating Policies and Procedures

Requiring that only the inflexible Minimum Stable Generation (“MSG”) or Minimum Operating Level (“MOL”) be allowed to be offered in at \$0 would be a minor revision to the market framework that would have very limited impact on participants, provide considerable improved clarity in the market and enhance the ability of the AESO to manage supply surplus. All other energy, including flexible and inflexible blocks of energy which participants wish to run as “price takers”, wind generation and imports would be offered in at a higher price (i.e. \$0.01). TransCanada agrees with the AESO that there is no need for both MSG and MOL and would encourage the AESO settle on only one of those terms and provide further clarity and definition around it.

Based on this, the procedure would be:

Step 1: Current hour import transactions (offered at \$0.01) will be curtailed, as required;

Step 2: Flexible blocks (offered at \$0.01) will be dispatched for partial volumes on a pro rata basis; and

Step 3: Inflexible blocks from generators operating at their MSG/MOL (offered at \$0.00) will be dispatched off.

Step 2 proposed in the Paper, dealing with units with highest dispatch variance should be removed. In a supply surplus situation the AESO System Controller will not have the time to determine these variances and in any event, there is no need, given the revised ISO Rule 6.6.

Market rules for wind generators

TransCanada supports this as it is the most fair to all participants and has been proven in other markets.

Voluntary Generator Curtailment Program (“VGCP”)

As stated above, TransCanada is opposed to this in principle and in practice and believes it could lead to unintended negative consequences.

Example of supply surplus management procedure

As detailed above, TransCanada proposes a change to the block offering to make the \$0 offers only MSG/MOL. The steps in the example will be impacted as follows:

- 1) not required
- 2) as above, Current hour import transactions (offered at \$0.01) will be curtailed, as required
- 3) as stated in the paper
- 4) as stated in the paper
- 5) as per above, no flexible blocks at \$0, only inflexible MSG or MOL blocks at \$0, Flexible blocks (offered at \$0.01) will be dispatched for partial volumes on a pro rata basis.
- 6) wind generation pro-rata curtailment, would happen above \$0 as their MOL or MSG is 0 MW, Inflexible blocks from generators operating at their MSG/MOL (offered at \$0.00) will be dispatched off
- 7) Assets will already be at MOL or MSG when price reaches \$0

Should you wish to discuss these comments, I can be reached at (403) 920-2081 or via e-mail (chris_best@transcanada.com)

Regards

[sent electronically]

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