

# UCA Comments on AESO Response to Transmission Regulation Section 18

## Stakeholder Comment Form

### AESO Recommendation Paper - Transmission Regulation Section 18

Date of Request for Comment: December 19, 2007  
Period of Consultation: December 20, 2007 to January 16, 2008

**Stakeholder:** Utilities Consumer Advocate

<b>Topic</b>	<b>Description</b>	<b>Stakeholder Comments</b>
<b>1.0 Executive Summary</b>	Outlines the four main topics as described in Section 18; Outage Coordination, Reliability Unit Commitment, Directives for Ancillary Services and Load Curtailment	Given the difficulty of constructing adequate transmission capacity, the increasing volume of non-dispatchable wind resources, and the continuing growth in Alberta's load, the 'Section 18' market will likely increase in importance. It would be prudent to ensure that these legislatively mandated processes are well defined as soon as practicable.
<b>2.0 Introduction</b>	Reviews Section 18 and indicates that guidance is provided by the Electricity Policy Framework. ISO Rules are required by April 11, 2008.	<p>This Section 18 'command and control' market structure is profoundly different from the voluntary, energy-only market design. Since it will only be activated in dire shortfall situations, its payments could well exceed the \$1,000 / MWh energy price cap, creating a profoundly troubling inter-market discontinuity.</p> <p>Generators who have located in Alberta were aware of the price cap, and presumably would not have based their business decisions on circumventing that cap. Accordingly, the price cap should apply to all generator output no matter what the circumstances. This would eliminate a perverse situation in which generators benefit financially from shortfall situations.</p>

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		<p>Removal of the energy market price cap appears to be a reasonable long-term solution to this market discontinuity. Given the existence of a fair, efficient and openly competitive market, and the resolution of other stakeholder concerns, this option merits careful consideration. However it is understood that this option will be considered in other AESO processes, and it will therefore not be further discussed in these comments.</p> <p>Generators who are not Pool Participants and customer loads would face no such cap, since they are not part of the energy market. Although this is not a reasonable long-term solution, it does appear to do the least harm to the energy-only market design.<sup>1</sup></p>
<b>3.0 Recommendation regarding Generator Coordination</b>	Introduces the AESO's interpretation of the direction given in section 18.	
<b>3.1 Advanced Generator Outage Scheduling (18(1))</b>	Describes the expectation of Section 18 that the AESO give direction to generators to operate under certain conditions. It is expected that with sufficient notice, generators will react to market signals and adjust their outage plans accordingly. If the market does not respond in a manner that alleviates a supply	The existing process of coordinating but not directing generator outages should be continued. Ordering generator outage deferrals should be an absolute last resort, since when the system is tight the deferred unit may knock other generator schedules out of sequence, potentially disrupting many other units and ultimately increasing supply risk to customers.

<sup>1</sup> In this context, the AESO's proposed policy of integrating the ancillary services market with the energy market holds considerable promise. ([http://www.aeso.ca/downloads/2007-12-19\\_OR\\_Market\\_Redesign\\_Concepts\\_Final.pdf](http://www.aeso.ca/downloads/2007-12-19_OR_Market_Redesign_Concepts_Final.pdf))

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	shortfall conditions, the AESO will invoke a pre-determined process.	
<b>a) Procedure</b>	Describes the sequence of events that will be used to ensure sufficient generation is made available.	Should the AESO executive have to direct an outage deferral, it would be helpful to systematically record what information was available and relied upon in making that decision, to reduce the potential for ‘hindsight’ assessments based on facts available at a later time.
<b>b) Compensation to Generators</b>	ISO Rules will be developed to keep the generator ‘whole’ for tangible costs associated with moving an outage.	As the AESO suggests, it would be fair to compensate direct and identifiable outage deferral costs. Secondary, energy-market related effects are highly speculative and cannot reasonably be compensated.
<b>3.2 Reliability Unit Commitment (RUC)</b>	RUC is a mechanism for the AESO to direct a generator to operate that is otherwise not scheduled near to the delivery hour but may be available to the market, or in other words has the ability to ‘commit’ their unit. The current ISO Rules (e.g. Must Offer Must Comply, T-2, Payments to Suppliers on the Margin) will assist to facilitate the requirements to implement RUC.	<p>If lost opportunity costs are not sufficient to incent a generator to start up, either the opportunity costs are too low or the generator has other reasons for remaining shut down (such as the ability to move the market into a lucrative shortage situation).</p> <p>An invasive review of generator decisions is inconsistent with the AESO’s overall role in coordinating energy market operations. It may be organizationally more effective for the AESO to issue a “RUC Notice” to all participants (as discussed), and involve another agency such as the AUC or MSA in assessing any failure of units to start up following that general notice.</p>
<b>a) Advance Dispatch Limitations</b>	The generators view of the market may differ from that of the System Controller resulting in an advance dispatch ...	Assuming that the AESO only issues such orders when absolutely necessary, this is analogous to the outage deferral problem in that the energy-market related effects are highly speculative and cannot reasonably be compensated, nor would it be fair to other generators to do so.
<b>b) Compensation Option 1</b>	A status quo approach would be used whereby a dispatched	In an unconstrained market, energy prices would rise to a level that would incent all operable generators to start up. Until the cap is lifted

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	generator would receive no additional incentives for an advance dispatch.	for all, it would be perverse to lift it only for those who withhold supply.
<b>c) Compensation Option 2</b>	A ‘keep whole’ approach would be used to ensure dispatched generators are not operating at a financial loss as a result of an advance dispatch.	While perhaps fair in principle, in practice this approach would be unworkable. Uncompensated startups create an incentive for generators to make preparations to run when the system is tight, which is exactly the behavior necessary to ‘keep the lights on’ for all.
<b>3.3 Directives for Ancillary Services (18(1)(a))</b>	The AESO is given the authority to direct units during abnormal conditions for the provision of ancillary services as reflected in the current ISO Rules. ISO Tariff Article 11 negotiations addressed compensation issues. A separate process will address outstanding issues.	As suggested, the AESO’s current processes promise to resolve the outstanding issues.
<b>4.0 Load Curtailment Priority Plan</b>	The AESO will undertake to consult with certain non-residential load customers to develop a plan to curtail industrial and large commercial loads in line with the direction set out in the Electricity Policy Framework.	<p>Increasing the involvement of industrial and large commercial customers in the energy marketplace is a sound and enduring response to these issues, and deserves the greatest effort and attention.</p> <p>The ADOE’s observation that these customers have been the principle beneficiaries of restructuring to date is compelling; however these large customers have no reason to support any departure from the status quo, in which residential and small commercial customers bear the brunt of underfrequency load shedding but receive no meaningful compensation. This old-world anachronism should be eliminated.</p> <p>The first step in a load curtailment program is thus to install load shedding equipment where it belongs—on large customer sites—and to pay appropriate, regulated rate for that service. Customers can then</p>

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		<p>self-select on a rational basis.</p> <p>This step would be controversial and contentious. But retaining these monopoly legacies in a competitive market can only disrupt its evolution towards a stable equilibrium.</p>
<p><b>5.0 Policy Coherence</b></p>	<p>The AESO has ensured that the recommendations of the Paper are consistent with the requirements of Section 18 (1) of the Transmission Regulation AR 86/2007, the Electricity Policy Framework and the Electric Utilities Act.</p>	<p>While helpful and insightful, the Electricity Policy Framework is now two and a half years old, and its statements must be considered in the light of current circumstances. Although the governing legislation deserves a high degree of deference and respect, where its provisions conflict with operating reality, reality must (and will) prevail, and the AESO has a duty to bring any such conflicts with reality to the attention of Government, Regulators, and the broader industry.</p>
<p><b>6.0 Implementation</b></p>	<p>The AESO has worked with the DOE to ensure that the recommendations in the paper are accurate and reasonable and it welcomes all stakeholder feedback.</p>	<p>Since market opening in 1996, the electric industry has often found that even the best of intentions can lead to unintended consequences.</p> <p>A consultative, consensus process will often agree to impossible and unworkable solutions. As well, the industry has fragmented into a large number of specialized participants, each looking out for their own self-interest and with no rational incentive to pursue the public good.</p> <p>As an agency with a market-wide scope, the AESO has a public interest mandate to look beyond participants' narrow perspectives, and consider impacts on the market as a whole.</p> <p>The AESO should consider aggressive, objective stress testing of more complex issues, including approaches such as market simulation, scenario creation, and outside expert review. The stronger the AESO's objective testing processes, the more the AESO will be respected and its decisions trusted by all.</p>