



TransAlta Corporation

Box 1900, Station "M"
110 - 12th Avenue SW
Calgary, Alberta
T2P 2M1

T (403) 267-7110
www.transalta.com

Marcy Cochlan

Managing Director, Market Regulation & Policy

Direct Line: 403-267-4664
Email: marcy_cochlan@transalta.com

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Alberta Electric System Operator
2500 330 5th Avenue SW
Calgary, AB
T2P 0L4

Attention: Miranda Erickson, Vice President, Markets, AESO

Dear Ms. Erickson:

RE: First draft of the Comprehensive Market Design

TransAlta Corporation ("TransAlta") appreciates the AESO's hard work in developing the first draft of the comprehensive market design (CMD). In order to develop a capacity market that ensures reliable electricity for consumers at an affordable price, we think it is important to revisit the AESO's stated goals in the development of the capacity market:

- Ensuring reliability as Alberta's electricity system evolves;
- Increasing the stability of prices;
- Providing greater revenue certainty for generators;
- Maintaining competitive market forces and driving innovation and cost discipline; and
- Supporting policy direction and adaptability for the future.

TransAlta continues to believe that achieving these goals is essential to the long-term success of the capacity market and, after extensive review and analysis, we are deeply concerned that the design outlined in this CMD will not achieve these stated goals. We believe there is one overarching area and three specific areas of concern with the CMD.

Our overarching area of concern is that the current CMD places the investment signal in the energy market which will damage capacity price formation. This will result in higher cost to consumers and the inefficient use of valuable, low cost, existing resources which may be forced to prematurely retire. We believe consumers will pay significantly more for energy and capacity resources under the current design.

Our three principal areas of concern with the CMD are:

- it will unnecessarily increase consumer costs by as much as \$1 billion per year;
- it increases the risk of an unreliable and unsustainable electricity system; and

- it does not provide a framework for fair and equal treatment between existing and new resources.

More specifically, there are fundamental flaws with the CMD that impact critical design features such as: energy market mitigation, the shape of the demand curve, and Unforced Capacity (UCAP) methodologies. A discussion of our concerns and the shortcomings impacting the critical design features follows below.

- **Consumer costs:** Delivered costs to consumers must be reasonable to ensure electricity prices support economic growth within the province. Keeping costs to consumers reasonable will ensure the sustainability of the capacity market. The current CMD's **energy market mitigation** framework continues to allow for economic withholding, leading to high and volatile electricity costs, which we believe will unnecessarily increase costs to consumers.

Economic withholding was needed in Alberta's energy-only market to permit generators the ability to earn a return for the capacity provided to the system. Economic withholding is no longer required to support a sustainable capacity market design as generators are directly paid for the value of capacity. Yet, economic withholding is still permitted within the CMD for all market resources. To ensure reasonable costs to consumers the design element of 1x short-run marginal cost (SRMC) should be adopted.

- **Reliable electricity system:** The reliability of the electricity system is critical to Alberta's economy. We believe the current CMD's steep **demand curve shape** will deteriorate the system's traditionally high level of reliability and increase the risk of market power abuse.

Given Alberta's historical reliability levels, available capacity and load characteristics, the reliability level of the demand curve should be conservatively set, and the curve's shape should not have a steep slope. Further, a flatter slope (that terminates at a reserve margin of 35%) would decrease price volatility and thereby increase revenue certainty for existing and new resources. This would provide more confidence in their investment in the Alberta market and ensure the overall reliability of the system.

- **Framework for fair and equal treatment:** The Alberta electricity market was founded on the principle of fair and open competition for all market participants. Market rules should be applied evenly and fairly. The current CMD's separate application of methodologies for calculating **UCAP** is discriminatory to existing resources.

The historical-based methodology to calculate UCAP for existing resource disadvantages existing resources in comparison to new. It does not reflect availability in the future capacity market and results in lower UCAP values for existing versus new resources. All resources' UCAP values should be based on future availability to ensure fair and equal treatment.

Finally, we encourage the AESO to take a more transparent approach as they consider future modelling and analysis. It is our view that further work is required to understand the dynamic nature of the evolving market structure and its implications to Alberta's consumers. Further information regarding all our concerns with the CMD and how it relates to our areas of concern have been outlined in our comments submitted for the three WG comment matrices.

We look forward to continuing to work with the AESO in the coming months to create the right capacity market for all of Alberta, generators and consumers. We would welcome the opportunity to discuss this letter and our comment matrices at the AESO's earliest convenience. I may be contacted at (403) 267-4664 or marcy_cochlan@transalta.com.

Thank you for your consideration of our comments.

Yours truly,

TRANSALTA CORPORATION

MARCY COCHLAN
Managing Director, Market Regulation & Policy