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October 28, 2016

Via email

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

Attention: Mr. William Chow

Dear William,

**Re: Consultation on Mothball Outages and Related Issues;
TransCanada Energy Ltd. (“TCE”) Additional Comments**

TCE writes in response to the AESO’s October 14, 2016 letter requesting additional written comments from parties regarding the phase 1 issue whether mothball outages should be a permanent feature of the Alberta market design framework. The AESO further requested that parties address stakeholder comments relating to this issue received on September 16, 2016.

TCE believes that mothball outages should be a permanent feature of the Alberta market design framework as expressed in its September 16, 2016 letter. TCE has had the opportunity to review the comments submitted by other stakeholders. As Capital Power Corporation (“Capital Power”) was the only party to submit comments opposing mothball outages, TCE has limited its comments to address Capital Power’s submission.

Response to Capital Power

Capital Power relied upon a number of claims to support its position that mothball outages be barred from the Alberta market design framework. In the sections that follow, TCE provides its comments on those of Capital Power’s claims that warrant a response.

Claim #1. Mothball outages would cause short-term prices to escalate “analogous to the impact TransAlta’s 2010 Sundance [A] ... outages had upon Alberta’s energy-only market”.

Capital Power’s claim is indicative of a conceptual misunderstanding as to the circumstances that may trigger a mothball outage. TCE expects that a generator would place a generating unit on a mothball outage only if the market conditions were to cause the expected pool price to be less than its variable cost for an extended period of time. Subject to other operational considerations,

under these unfavourable market conditions one would expect that a generating unit would be out-of-merit and not generating prior to taking the mothball outage and would, therefore, be unable to impact short-term prices. The same is not true with respect to the Sundance A units, which were in-merit and generating prior to the 2010 outage and, therefore, did impact the short-term prices. In this sense, mothball outages are not analogous to the Sundance A outage.

Claim #2. “[D]eparting from the [must offer, must comply rule] to accommodate mothball outages would represent a fundamental – and unwarranted – change to Alberta’s market framework.”

TCE submits that mothball outages do not represent a departure from the intent of the must offer, must comply rule. As Capital Power’s reference to the Alberta Department of Energy’s policy paper makes clear, the intent of the must offer, must comply provisions were to: (i) address a lack of transparency in available supply that was causing reliability and market power concerns; and (ii) ensure next day adequacy. Provided sufficient notice is provided, mothball outages would not create uncertainty in available supply as it relates to next day adequacy, nor would it distort dispatch signals. Consequently, there will be no departure from the intent of the must offer, must comply provisions.

Under unfavourable market conditions and without the opportunity to take a mothball outage, a generator would be left with little choice but to either: (a) continue to make its generating unit available while sustaining losses; or (b) take an outage by way of terminating its system access service (“SAS”) agreement with the AESO. With respect to the first choice, TCE suggests that such a circumstance was never contemplated when the must offer, must comply rule was developed and to require strict compliance under unfavourable market conditions would be unfair, inefficient and thus inconsistent with the FEOC principles. For this reason, TCE considers this to be an unreasonable alternative.

With respect to terminating an SAS agreement with the AESO, the terms of the ISO tariff do not require market participants to provide notice. Consequently, subject to providing adequate notice, mothball outages provide more certainty and transparency compared to the alternative. On this basis, TCE submits that mothball outages are warranted.

TCE further submits that mothball outages would not be a fundamental change to Alberta’s market framework. A mothball outage simply provides a generator owner the opportunity to put a generating unit on an outage during periods when market conditions are particularly unfavourable. TCE expects that mothball outages will occur infrequently since such market conditions will be rare, as evidenced by the history of Alberta’s electricity market, and that generator’s will not make the decision to take a mothball outage lightly. As such, mothball outages will not amount to a fundamental change to the market as Capital Power suggests.

Claim #3. Mothball outages “run counter to FEOC objectives, and would introduce distortions to market signals and dispatch signals impairing retirement decisions and investment decisions”.

Capital Power's claim is without merit – mothball outages are consistent with FEOC objectives and would not distort dispatch or market signals. As expressed in the previous section, with adequate notice mothball outages would not distort dispatch signals.

Capital Power claims that market signals will be distorted and investment decisions impaired due to a lack of transparency as to the timing of a mothballed units return from outage. TCE disagrees. A sophisticated market participant would be aware of the pool price when the generating unit was mothballed (which in itself provides a price signal to market participants), would have a good idea as to the mothballed unit's variable costs and, with this information, would be able to reasonably estimate the pool price at which a mothballed unit would return from outage. Further, any transparency issues associated with a mothballed unit would be no greater than those associated with a generating unit in the AESO's connection queue.

Compared to the alternative in which a generator may terminate an SAS agreement with no notice, a generating unit on a mothball outage would provide more transparency and market signals for market participants to make investment decisions. TCE submits that forcing a generating unit to cancel its SAS agreement when facing particularly unfavourable market conditions would needlessly waste both the market participant's and the AESO's resources, and would not be consistent with the FEOC operation of the market.

Also, compared to the alternative, a mothball outage would provide the AESO the ability to call upon a mothballed unit for reliability purposes, which it would be unable to do without an SAS agreement in place.

Concluding Comments

TCE believes that mothball outages are an important component of the Alberta market design framework. While TCE expects that mothball outages will be taken infrequently, they are nevertheless necessary during periods when the market conditions are particularly unfavourable to facilitate the FEOC operation of the market and to provide the AESO the tools it needs to ensure reliability.

If you have any questions or comments, please feel free to contact the undersigned at (403) 920-5005 or via e-mail at markj_thompson@transcanada.com.

Yours truly,

Original Signed by

Mark Thompson
Manager, Market Services