

August 22, 2017

Independent Electricity System Operator  
Station A, Box 4474  
Toronto, ON  
M5W 4E5

Re: Enabling System Flexibility Consultation

Attention: Stakeholder Engagement

TransAlta would like to thank the Independent Electricity System Operator ("IESO") for the opportunity to comment on the Enabling System Flexibility Consultation. TransAlta supports the continuation of a competitive market in Ontario that delivers an efficient, competitive and reliable electricity/market for the wholesale supply and purchase of electricity and ancillary services to best serve customers and ratepayers.

TransAlta is interested in serving the Ontario market to meet its flexibility needs by utilizing our existing assets in creative and innovative ways. The company has assets in place that could serve these needs; however, would not be eligible (or able) to do so based on the current proposed framework. TransAlta has three key concerns with the proposed interim solution:

1. Operational Consideration
2. Appropriate Incentive for Market Participants
3. Data Transparency to Market Participants

Operational Consideration:

TransAlta agrees with the IESO that a notification period is required to allow market participants to respond to the flexibility needs. To further support participants involvement, the IESO should also take into consideration a facilities operational limitations in the development of this program.

TransAlta suggests the following operational needs be considered:

1. Notification period of two hours. This will provide adequate notice for facilities to respond while reducing uncertainty in IESO forecast.
2. Minimum commitment time. The IESO will need to commit units for minimum OR run time to ensure that participants have sufficient ability to recover costs and earn revenues.

### Appropriate Incentive for Market Participants:

TransAlta believes that the proposed interim solution does not provide sufficient incentives for market participants to provide the flexibility required by the IESO. In the proposed approach, the IESO appears to suggest that cost recovery, as provided through the RT-GCG process, would be sufficient to incent generators who would not otherwise be online, to dispatch on to provide the required incremental operating reserves. TransAlta does not believe this to be the case.

TransAlta envisions that the two hours notice the IESO is proposing to provide would enable generators to ramp up and put them in a position to offer operating reserves from their facilities (in a fashion that may be different than how they would start up their units if they were coming on with the expectation of providing power to the energy market). They would likely stay in this state for several hours while providing the system with the operating reserve backup it requires. Under this scenario, the generator, in all likelihood, loses money on startup, and loses money on continued operation in the energy market. Under the current RT-GCG program, revenues gained in the OR market would be clawed back to cover startup losses, and no cost recovery would be provided for losses incurred due to continued operations. Therefore, the RT-GCG program does not help to incent the behavior the IESO is seeking.

Additional generators are not currently dispatched on during periods when the IESO requires incremental reserves for flexibility because the facilities are expected to be economic during these periods (as displayed in current bidding practices). Committing additional generation resources during these time periods will achieve the IESO's goals by helping to ensure that price spikes do not occur, keeping actual prices more in line with forecast prices. However, if actual prices are in line with forecast prices, this also ensures that generators will not be profitable, thereby leading generators not to bid in during these periods. This problem is not solved by offering coverage through the RT-GCG program, as this program only supports generators to break-even during the period in which they run. The opportunity to see a profit will be required to incentivize generators to operate.

TransAlta believes that a different type of cost guarantee program is required to incent the behavior the IESO is looking for. The requisite components of a new system flexibility cost recovery program should contain the following elements:

1. Treat recovery of costs in the energy market separately from revenues generated in the OR markets;
2. Contain a process similar to the RT-GCG methodology to allow market participants to recover their energy and start-up costs. This program would allow for cost recovery of all hours associated with both start-up and run time required to provide the IESO's flexibility needs. Revenues from energy generated could be considered in the cost recovery calculation but Operating Reserves revenues would be excluded.

3. Allow market participants to offer in both the 10 minute and 30 minute OR markets, excluding these revenues from the cost recovery calculation described above; and
4. The system cost optimization process would include consideration of both the OR offer prices , the costs of covering the startup, and revenues from energy generated during periods when flexibility reserves are required. This would allow for both a competitive process and the lowest cost to ratepayers.

#### Data Transparency to Market Participants:

The IESO has provided examples of the need for flexibility; however, additional data will be required for market participants to be able to judge the size and potential profitability of the proposed flexibility program to give them the confidence necessary to make any capital investments or operating changes required.

In order to assess the opportunity, market participants' would need to know:

1. How often the IESO requires additional flexibility;
2. How many additional MWs of OR are required per requirement period;
3. The anticipated duration of requirement periods; and
4. An understanding of the pre-existing merit order for OR supply

TransAlta understands that the IESO has concerns with releasing potentially commercially sensitive information related to the existing merit order. As an alternative to providing merit order data, TransAlta suggests that the IESO perform an historical back-casting exercise, identifying over the past 24 months the amounts and periods over which it would have acquired additional operating reserves under its proposed methodology, and recalculating what OR prices would have been at the time based on the historical offers.

#### Conclusion:

In summary, TransAlta has the following concerns:

1. The IESO should consider operational limitations when developing its program;
2. Cost recovery from RT-GCG is insufficient to incent participation into the program; and
3. Further market data is required for market participants to make informed choices about their participation in the program.

Overall, TransAlta believes that further consultation is required on the Enabling System Flexibility consultation. We look forward to participating in future discussions with the IESO. TransAlta would like to thank the IESO for taking into consideration our comments.

Sincerely,

Thanh Nguyen  
Sr. Regulatory Advisor, Ontario & US East  
Phone: 403-267-3905 | Cell: 403-703-2648

cc: Barbara Ellard, Director – Markets, IESO  
Hok Ng, Senior Analyst, IESO