



NOTICE TO MARKET PARTICIPANTS AND STAKEHOLDERS

Date: September 29, 2010

Re: Market Participant Offer Behaviour: MSA Response to Stakeholder Comments

On June 29, 2010, the MSA notified stakeholders that it had commenced a Stakeholder Consultation regarding Market Participant Offer Behaviour. Previously, the MSA had published two discussion papers [[Foundational Elements](#) (April 27, 2010) and [Analytical Framework](#) (June 17, 2010)] and stakeholders were invited to provide written comments to the MSA by July 30, 2010. The [comments](#) received were posted to the MSA's website on August 4, 2010. The MSA subsequently posted some [illustrative examples](#) and invited stakeholders to a workshop on September 17, 2010.

Comments were received from six parties during the comment period. The MSA's responses to the comments received are given below. In some cases stakeholders had requested the MSA develop examples where we have been able to do so the MSA has already published those in its September 10, 2010 notice.

The MSA is currently working on a 'Draft Guideline' and is expecting to have this completed in October 2010. Following the release of the Draft there will be an additional opportunity for stakeholder comment. The expected timelines are set out below:

Stage	Results	End date
	Roundtable	Feb 18, 2010
INITIATE	Publish discussion papers ('strawdog')	Apr 27 & Jun 17, 2010
	Roundtable – Initial feedback	Jun 25, 2010
DEVELOP	Receive Stakeholder comments on Strawdog	Jul 30, 2010
	Workshop – Illustrative Examples	Sep 17, 2010
DRAFT	MSA Responses to Stakeholder comments	Sep 28, 2010
	Publish Draft Guideline	Oct-Nov 2010
DEBATE	Receive Stakeholder comments on Draft	Oct-Nov 2010
DECIDE	Finalize Guideline	Nov-Dec 2010

If you have any comments or suggestions on any aspects of the work described herein, please contact Harry Chandler (harry.chandler@albertamsa.ca, 403-233-4682) or Matt Ayres (matt.ayres@albertamsa.ca, 403-705-3182).

We appreciate your participation in these matters.

Yours truly,

/s/ Harry Chandler

Market Surveillance Administrator

MSA Response to Stakeholder Comments

Comments were received from six parties during the comment period.

- ATCO
- Capital Power Corp.
- IPPSA
- Northstone Power
- TransAlta
- TransCanada

Focus on Dynamic Efficiency

The comments received were either supportive or did not address the MSA's intent to focus on dynamic efficiency. The MSA confirms that it intends to carry forward the definitions of static and dynamic efficiency to the draft guideline and the general philosophy that static efficiency losses are acceptable so long as there are corresponding gains in dynamic efficiency.

Economic Withholding

ATCO requested examples to clarify the statements made by the MSA respecting economic withholding. In response, two examples were developed and included with the September 10, 2010 notice and discussed at the workshop. At the workshop the MSA was further challenged to clarify whether it was in a position to state that unilateral conduct, absent any attempt to prevent or otherwise restrict competition, would not result in the MSA pursuing enforcement action i.e. the MSA would instead make recommendations to change market rules / structure. Other market participants were of the view that it was possible to distinguish a 'manipulative scheme' from other kinds of conduct. The MSA appreciates the discussion that occurred at the workshop and will clarify its position in the text of the Draft Guideline.

Intertie Guideline

TransAlta supported the replacement of the Intertie Guideline with other measures and that the MSA should review the competitive response to imports on the intertie and whether other agencies should consider further action. Similarly, ATCO supported the removal of the intertie guideline but only after the AESO had enacted new intertie rules. ATCO also raised an issue with related to export ATC. IPPSA encouraged the MSA to conduct a review of the Intertie Conduct Guideline.

Capital Power supported the proposal to rescind the current Intertie Guideline, but that the Guideline should continue to apply to out of province Crown Corporations in order to address level playing field concerns.

In the Illustrative Examples, the MSA has shown how the proposed framework would address problems related to export ATC, noting that at present this represents a hypothetical rather than actual problem. The MSA is not convinced a case has been made for differential treatment for Crown Corporations. Further, the MSA is highly unlikely to support any form of protectionist measure because it would be harmful to efficiency. The MSA supports the timely resolution of the AESO's consultation on both the Intertie Framework and Intertie restoration projects but does not see the completion of that process as a necessary condition for removal of the Intertie conduct guideline. The MSA will continue to monitor and report on intertie conduct and where appropriate make recommendations.

Buying groups

A number of stakeholders commented on the MSA's view relating to load buying groups. The MSA has provided further clarification in this area as part of the Illustrative examples attached to the September 10, 2010 notice.

Market Monitoring

TransAlta supported the MSA's effort to create metrics for market monitoring, particularly those focusing on competitive health and dynamic efficiency. IPPSA and Capital Power requested the MSA place more emphasis on the value of lost load (VoLL) on the basis that it was an important consideration in determining the competitive health of the market. Capital Power noted that the MSA's reporting should be strictly factual, based on publicly available information, refrain from naming market participants and should not comment on behaviours that cannot be shown to have a negative impact on long-term (dynamic) efficiency.

In the Illustrative Examples the MSA provided some further clarity on how it would report on market outcomes, including that it would refrain from naming participants in general monitoring activity. The MSA does not believe that it is appropriate to limit its analysis to publicly available data or restrict reporting of events. The MSA believes that it has a key role explaining anomalous market outcomes and should conduct rigorous analysis based on the unique set of market data at its disposal. The MSA believes stakeholders are interested in both factual analysis and the MSA views.

The MSA would appreciate additional feedback on whether and, in particular, how it should place more emphasis on VoLL. The MSA notes there is considerable literature on the link between VoLL and the price cap in energy only markets. Given the low frequency with which the current price cap of \$999.99 is reached the MSA does not see that this is currently presenting a significant impediment to efficient market outcomes. Estimation of VoLL is likely to be neither a simple or inexpensive exercise and may vary considerably between customers and customer groups. Without a better understanding of the perceived need to estimate VoLL the MSA is not anticipating work in this area.

Evaluation of Proposed Metrics / Guidelines

IPPSA supported the idea that proposed metrics or potential guidelines be evaluated at some fixed point in time to determine if they have contributed to achieving dynamic efficiency in the Alberta market. The MSA notes that in accordance with its stakeholder consultation process that:

“Once the project is completed and sufficient time has elapsed for the result to have taken effect in the market, the MSA will conduct “Evaluation” activities to assess the impact of the project, and learn lessons that may be applied to future projects. Such evaluations will be scheduled and the expected timing communicated at the conclusion of the public project process. There will be no standard process for “Evaluation” activities since they will vary according to the nature of the project result.”

The MSA does not have a particular process for evaluating specific metrics but is continually seeking to improve and evolve its tool set. The MSA does not think it reasonable to expect that metrics are required to contribute to dynamic efficiency and in most cases they will simply be measures.

Other Issues

Northstone Power provided some detailed commentary on operating reserve market design. Capital Power encouraged the MSA to continue assessing the health of the retail market and the interrelationship with the wholesale market. The MSA notes that neither operating reserve nor retail markets were the subject of the current consultation. That said, the MSA intends to follow the general approach to assessment of efficiency outlined in the Foundational Elements and Analytical Framework papers to all areas in its mandate.