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April 30, 2020

Independent System Operator
120 Adelaide St. West
Toronto, Ontario
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Sent via Email

Attention: Diljeet Singh, Manager, Operational Assessment

Dear Mr. Singh:

**RE: Improving Accessibility of Operating Reserve
TransAlta Comments on Detailed Design for Operating Reserve Clawbacks**

Thank you for opportunity to comment on the Independent Electricity System Operator's (IESO) detailed design for the operating reserve (OR) settlement clawback mechanism. This letter provides TransAlta's comments on the detailed design presented at the March 30, 2020, webinar.

TransAlta is generally supportive of the proposal outlined by the IESO but we have two specific concerns. First, we are concerned that the proposed clawback mechanism removes the compliance deadband for inadvertent energy dispatch deviations. Second, we are concerned that the OR activation performance measurement criteria are inappropriately expanding the OR product definition.

Clawback Threshold

We agree with the IESO that ratepayers should not pay for OR that is not available. However, the clawback design needs recognize that resources cannot always sustain a precise injection or withdrawal. A resource that is scheduled to its full capability will incur clawbacks for inadvertent dispatch deviations.

A market participant could reduce the risk of clawbacks during inadvertent dispatch deviations by reducing the quantity of OR offered or by injecting less power than its energy dispatch (or withdrawing more power). These actions would reduce the amount of OR in the market or encourage resources to underperform against dispatches. These are not desirable outcomes.

We recommend that the IESO consider establishing an hourly threshold below which clawbacks are not incurred. For example, the IESO could apply an hourly threshold set at 10% of OR dispatched before assessing settlement clawbacks. This would mean a resource with 10 MW of

OR dispatched could exceed its energy dispatch by a total of 1 MWh during a settlement hour before incurring clawbacks. This is considerably lower than allowed by the compliance deadband but this would allow small inadvertent dispatch deviations to avoid penalties while ensuring that a resource is penalized if it does not make at least 90% of the scheduled OR available. We believe this provides an appropriate balance that respects the compliance deadband and does not create the disincentives outlined above.

OR Performance Measurement Criteria

The IESO has proposed that the OR activation performance measurement criteria would require a resource to provide incremental energy equal to the sum of OR activated and any deficiency against the resource's energy dispatch. We support the proposal to define OR activation performance in terms of the incremental energy provided and the amount of OR activated. We do not support including energy dispatch performance within the OR activation performance measurement criteria.

We understand that the IESO intends for this requirement to incentivize compliance with energy dispatches because the system needs additional energy when OR is being activated. However, the proposed design effectively converts energy dispatches into OR during OR activation. In the same way that ratepayers should not pay for OR that is not available, we submit that market participants should not be expected to provide OR that they are not being paid for.

At a high-level, it is important that the energy and OR product definitions be clear. It is better for both markets if the performance standard for each market is measured against the quantity provided in each market. We suggest that the IESO define the OR performance measurement criteria based solely on the incremental energy provided by a resource and the amount of OR activated. For example, this could be achieved by measuring the incremental energy provided by a resource as the difference between:

- The initial output calculated as the resource's lowest injection/highest withdrawal between 1 minute before and 1 minute after OR is activated; and
- The final output calculated as the resource's highest injection/lowest withdrawal between 9 and 11 minutes after OR activation.

This approach would address many of the concerns raised by other stakeholders.

I look forward to further discussions on this topic. Please do not hesitate to contact me if you want to discuss.

Yours truly,

TRANSALTA CORPORATION



CHRIS CODD
Senior Regulatory Advisor