

ISO Rule Proposal

Purpose of the Form

Section 20.81 of the *Electric Utilities Act* requires the AESO to establish a process for market participants and interested parties to propose ISO rules for the AESO's consideration. To propose a new ISO rule, an amendment to an existing ISO rule or a removal of an existing ISO rule, please complete and submit this form.

Completed proposal forms will be posted to the AESO website with Individual Name, Title and Contact Details removed. Please ensure that any confidential or commercially sensitive information submitted with your proposal has been clearly identified.

ISO Rule Proposal Description

1. Proposal Date:

February 5, 2026

2. Proposal Type:

☐ New ISO rule(s)	☒ Amend existing ISO rule(s)	☐ Removal of existing ISO rule(s)
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3. Provide a concise description of **the issue** that the proposed rule is intended to address, the level of **urgency**, and any **industry impacts**. Please provide a list of any relevant supporting data, analysis, or materials and include these documents as attachments to this form.

A) ISSUE – The TCM Rule is causing market distortions and placing undue reliability risk on the electricity system.

The current iteration of ISO Rule Section 302.1 – Real time Transmission Constraint Management (“TCM Rule”) was created in conjunction with a Transmission Regulation (T-Reg) that established a “zero-congestion” standard. This “zero congestion” standard underpinned the earlier acceptance of TCM as an emergency stopgap, not a routine tool. It was never intended for nor designed to manage the elevated levels and frequency of congestion being observed today. Consequently, it is now causing material market distortions, undue discrimination in Alberta's electricity market, and serious reliability risk, impacting both power producers and consumers. Corrective measures must be put in place expeditiously. The proposed remedial actions outlined below are simple to implement and any associated costs are outweighed by the need to address market distortions and reliability risks from the TCM Rule. For these reasons, the AESO should exercise its powers under the EUA to enact the changes immediately and without the need for an AUC process unless effected using the expedited rule process.

Indeed, in Decision 2009-042 the Commission explicitly predicated its approval of the then-proposed TCM Rule on the AESO's representation that it would only be used for unforeseen, infrequent, short-duration congestion. The current reality – where constraints are neither rare nor quickly resolved – means the TCM Rule is being applied outside its original intended scope.

The TCM Rule's Transmission Constraint Rebalancing mechanism ("TCR"), as applied today, produces several of the same fundamental problems previously identified by the Alberta Utilities Commission ("AUC") in past decisions, namely by sending the wrong price signals and lacking price fidelity. While the AESO did revise the rule following AUC Decision 2013-135, subsequent market developments have now rendered those changes inadequate.

Moreover, the Government of Alberta's July 3, 2024 Direction Letter to the AESO confirms a policy shift to move away from the current zero-congestion transmission planning standard to an optimally planned transmission standard with changes to the T-Reg following suit one year later cementing the change. In other words, persistent congestion is now expected going forward. Yet the TCM Rule's design has not been fundamentally updated to reflect this new paradigm.

The growing magnitude and frequency of congestion, combined with an outdated TCM Rule, is creating material unintended consequences adversely impacting market participants and consumers. Transmission congestion, once expected to be unforeseen and infrequent, now occurs in a significant portion of hours meaning the TCM Rule is invoked routinely rather than exceptionally. The recent shift away from the "zero-congestion" requirement of the previous T-Reg means that real-time constraints now must be accepted as part of the norm. By extension, this also means the unintended frequent use of TCR results in market outcomes that violate the conditions under which the rule was originally tolerated and replicates the very distortions the AUC warned against.

The TCM Rule now appears to be deployed in roughly 50% of hours and is causing significant price impact. In its Q2 and Q3 2025 quarterly reports, the Alberta Market Surveillance Administrator ("MSA") reported that in roughly half of the hours, at least some generation was constrained-down due to transmission limits.¹ In up to 28% of hours over that same period, the "unconstrained" vs. "constrained" system marginal price ("SMP") differed by **at least \$1/MWh**, indicating a substantial pool price impact nearly one-third of the time.²

	Q1/25	Q2/25	Q3/25
Frequency of Congestion (hrs >1 MWh)	906	1,181	1,197
Proportion of total time Congestion Observed per Quarter	42%	54%	54%
Volume of Curtailed Intermittent Generation (MWh)	160,000	310,000	268,000

Summary Statistics of MSA Observations Regarding Transmission Constraints³

Such pervasive intervention and price impact goes far beyond the "infrequent and short" congestion management that the Commission in 2009 and 2013 found acceptable. This also far surpasses the 8-9% congestion in all hours of 2023 the Commission concluded "...to be

¹ P.49, *Wholesale Market Report: Q2 2025 (Aug 13, 2025)*, Alberta Market Surveillance Administrator. Accessed Online: <https://www.albertamsa.ca/assets/Documents/Wholesale-Market-Report-Q2-2025.pdf>

² *Ibid* at p.51.

³ MSA quarterly report for Q1 and Q3, 2025 can be accessed publicly online: <https://www.albertamsa.ca/documents/reports/quarterly-reports>

material.”⁴ Consequently, the current TCM Rule effectively decouples the market price from actual system conditions in a large fraction of hours. This persistent price distortion is inconsistent with the AESO’s EUA section 17 obligation to dispatch and price energy by relative economic merit which presumes prices reflect true supply-demand balance.

B) URGENCY AND IMPACTS – TCM Rule Changes Are Needed Immediately to Limit the Frequent and Significant Market Harm and to Safeguard from Undue Reliability Risk.

The TCM Rule manages real-time congestion by displacing supply from in-merit assets with capacity dispatched from out-of-merit facilities to resolve system constraints. However, these “constrained-on” facilities cannot be considered in setting the system marginal price (“SMP”) under the TCM Rule’s TCR mechanism. The TCR’s intentional disregard of constrained-on facilities in setting SMP during transmission constraints artificially suppresses the pool price and distorts the price signal by failing to reflect prevailing market conditions and sends the wrong price signal to the majority of load and generators in the province during constraint events.⁵

Aligning the pool price with actual market conditions, especially during periods of congestion, is essential to restoring price fidelity, ensuring fair cost recovery for generators, and promoting the overall efficiency and stability of the Alberta electricity market. The continued application of the TCM Rule in a congested system has several concerning market effects:

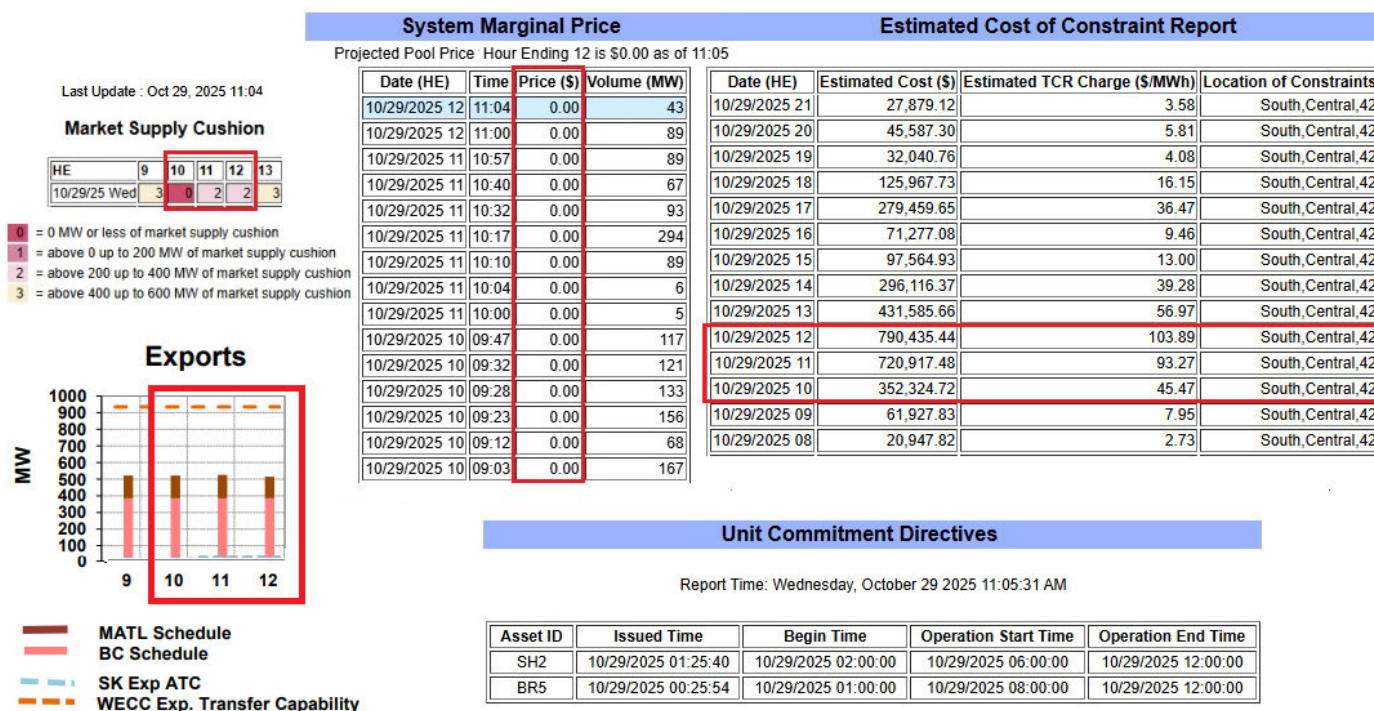
- It artificially suppresses the pool price—by an estimated 6.95%, as reported by the MSA for the difference between congested and uncongested prices (Q1-Q3 2025). This is expected to worsen for Q4 2025. This is particularly troubling given that, according to the AESO’s Monthly Cumulative Settlement Interval Net Revenue Calculation, generators have only recovered approximately 83% of their unavoidable costs since the implementation of the Interim Market Power Mitigation Regulations.
- During periods of high renewable generation, persistent pool price suppression necessitates the cycling of long lead-time assets, increasing the frequency with which AESO must issue Unit Commitment Directives (“UCD”). This reduces overall system efficiency and increases operational costs.
- Suppressed pool prices contribute to increased price volatility as generators will require higher prices during unconstrained periods to offset the additional losses incurred due to the pervasive use of the TCM Rule.
- The TCM rule also adversely affects taxpayers via lower prices captured by the Renewable Electricity Program (REP) facilities. It is estimated that the TCM rule resulted in reduced realized price of these contracts by roughly 12.7% costing taxpayers and the Government of Alberta approximately \$23 million over the course of 18 months (January 2024 to June 2025). Annualized, this amounts to \$15.5 million and rising with the frequency and volume of congestion trend seen year-over-year.

⁴ Para 128 at p.24, AUC Decision 27776-D01-2023 (September 19, 2023), Alberta Electric System Operator Needs Identification Document Application and Section 15(2) Application for Vauxhall Area Transmission Development, Alberta Utilities Commission.

⁵ Transmission constraints in Alberta have historically been of the export constraint variant where generation capability in an area exceeds local load and cannot be transferred out of the region. For these types of constraints, the vast majority of generation and load are located downstream of the constraint.

The TCM Rule can also have a negative impact on consumers by creating market distortions that encourage exports from artificially suppressed Alberta prices, which would not occur under normal market conditions using the congested price. As a result, the TCR charge, which is paid by consumers, can escalate dramatically.

Events on October 29, 2025 well demonstrate this negative impact. The AESO expected that available supply may become tight and pre-emptively issued 2 UCDs in the very early hours of that day. Hours later, the supply cushion quickly depleted to 0 MW (or less) by hour ending (HE) 10 remaining tight until HE13. Despite the AESO correctly anticipating tight supply conditions prompting the need to bring additional supply online (via UCD), SMP in those hours was \$0 with the day averaging \$1.70/MWh. To be clear, **the market supply cushion was 0 MW or less while SMP was \$0/MWh, clearly signaling that the TCM Rule distorts scarcity pricing signals.** Unsurprisingly, ~500 MW of Alberta capacity chose to export power to higher priced regions such as California where real-time prices were ~\$40/MWh (CAD). Real-time Alberta market statistics from that day are provided below.



Though low pool prices may appear like savings to consumers, artificially suppressed levels during constraint events mask scarcity risking both short- and long-term reliability and raise system costs through payments for TCR and UCD. These payments, however, are not known or visible during constraint events. This emphasizes the importance of ensuring pool price fidelity as it is essential for sending the appropriate signals visible to suppliers in determining how to deploy their capacity and load for when to consume.

Prices that fail to reflect market conditions should be expected to result in undesirable outcomes and pose increased risks to grid reliability. As the October 29 event demonstrates, price distortion from the use of the outdated TCM Rule resulted in the wrong signals being sent to load and producers. With little incentive for load to reduce consumption and generators to make capacity available, the grid was left with little or no supply cushion. This put undue stress on the grid and reliability at risk. Absent the TCM Rule, Alberta would have settled at a higher price reflective of

market conditions. Instead, and as demonstrated on October 29, the TCM Rule suppressed prices, incenting exports that would otherwise not have occurred, and **requiring loads to pay \$109/MWh in TCR charges instead of an energy price more aligned with surrounding jurisdictions, at about \$40/MWh.**

As the TCM Rule is increasingly applied across more operating hours, there have been many notable instances where its implementation has led to the AESO dispatching energy-constrained resources, such as hydroelectric and battery storage assets, during periods when the market price was \$0/MWh and Alberta was simultaneously exporting power. This raises significant concerns, as it effectively compels the use of limited and valuable energy reserves to facilitate exports rather than reserving them for domestic reliability needs. Dispatching energy-constrained resources in this manner, especially to support exports, should be recognized by all market participants and the AESO as a serious reliability issue that warrants immediate attention and careful reconsideration.

4. Provide a description of your proposal to address the issue described in #3. Include the purpose or objective of the proposed new or amended ISO rule. Note that it is not necessary to provide draft rule language.

The AESO should immediately allow the SMP to reflect the constrained merit to mitigate the adverse consequences from the TCR mechanism under the current TCM Rule. It should be noted that the longer the rule in its existing form remains in place, the greater the adverse market impacts continue to accrue and the greater the potential for negative reliability outcomes for Albertans. The AESO has a duty to exercise its powers in limiting the market and system harms above and can do so by making the following changes:

- a) Remove the words following "...merit order" at subsection 2(2)(b)(ii) of ISO Rule 302.1 - Real Time Transmission Constraint Management;
- b) Remove subsection 3(2) of ISO Rule 201.6 – Pricing;
- c) Remove subsection 7(1)(d) and 8 of ISO Rule 103.4 - Power Pool Financial Settlement;
- d) Remove subsection 6(d) of ISO Rule 202.7–Markets Suspension or Limited Markets Operations;
- e) Any other incidental or administrative changes required to allow the SMP to reflect the constrained system as established by the marginal asset including the TCR dispatched asset.

The listed changes should be made swiftly and filed with the AUC on an expedited basis in accordance with section 20.6 of the EUA. Going through a lengthy complaint proceeding before the AUC would otherwise negate the resolution of the concerns given the current material harms and forthcoming REM implementation. The effort and cost to change the rule are negligible and are far outweighed by the need to address market distortions and reliability risks.

5. Provide a list of related ISO rules, Information Documents, and any other relevant AESO documents.

See response #4.

Proponent Information

List at least one contact. For additional contacts, copy the table below and include all the requested details for each person. If more than one contact is provided, please identify the main contact.

Individual Name:	[REDACTED]
Title:	[REDACTED]
Company Name:	ATCO EnPower
Contact details:	[REDACTED]

Individual Name:	[REDACTED]
Title:	[REDACTED]
Company Name:	Capital Power Corporation
Contact details:	[REDACTED]

Individual Name:	[REDACTED]
Title:	[REDACTED]
Company Name:	Kineticor
Contact details:	[REDACTED]

Individual Name:	[REDACTED]
Title:	[REDACTED]
Company Name:	Maxim Power Corp.
Contact details:	[REDACTED]

Note that personal information collected on this form will be used to contact you to administer the ISO rule proposal process. This information is collected in accordance with section 33(c) of the *Freedom of Information and Protection of Privacy Act*. Questions related to the handling of personal information can be directed to privacy@aeso.ca.

Submit form to: ruleproposals@aeso.ca