Stakeholder Comment Matrix – October 8, 2019
Request for input on market power mitigation

Period of Comment:	October 8, 2019 through October 29, 2019	**Contact:**	[redacted]
Comments From:	Capital Power	**Phone:**	[redacted]
Date:	2019/10/29	**Email:**	[redacted]

The AESO is seeking comments from stakeholders on market power and market power mitigation in Alberta's energy and ancillary services markets.

	Questions	Stakeholder Comments
1.	What has been effective in Alberta's historical approach to market power mitigation in the energy-only market, and what could be improved?	Before assessing what has been effective in Alberta's historical approach to market power mitigation and what could be improved, it is important to define what market power is and in which circumstances it should be mitigated. Market power is the ability of a firm to profitably raise the market price of a good or service above its marginal cost. In Alberta's energy-only market ("EOM"), prices must rise above marginal costs in order to provide investors the opportunity to earn back fixed costs. The exercise of market power facilitates this. When suppliers offer some of their capacity above marginal cost in attempt to increase overall market price, other market participants are encouraged to respond and to compete. This competition results in efficient price outcomes, a key deliverable of deregulated markets. In Alberta, such competition has been an effective discipline on the exercise of market power and resulted in efficient outcomes including significant additions to the system via private investment. Over the past 10 years, Alberta's EOM has attracted over 4 GW of new supply and maintained a reserve margin of at least 20% (exclusive of intertie capacity). Alberta's historical approach to market power mitigation has been effective due to the Electric Utilities Act's ("EUA") Fair, Efficient and Open Competition ("FEOC") Regulation and ex-post surveillance, investigation and enforcement framework involving the Market Surveillance Administrator ("MSA") and Alberta Utilities Commission ("AUC"). The importance of these elements to Alberta's electricity market are expanded on below. A key improvement to Alberta's historical approach to market power mitigation would be to explicitly acknowledge, in legislation, that market participants cannot earn a

		return on and of invested capital if prices settle at marginal cost. Offering of MWs above marginal cost therefore, must be recognized as a permissible and necessary activity. The place for this improvement is in the EUA and the FEOC Regulation. A further improvement to Alberta's market power mitigation approach would be to ensure consistent application of the FEOC Regulation and ex-post oversight among all market participants and regardless of direction of price impact arising from prohibited behavior.
2.	Do you expect the historical approach to market power mitigation in the energy-only market (e.g. OBEG, ex-post monitoring, must offer, 30% offer control limit, FEOC Regulation) will be effective on a go-forward basis? If yes, please explain your rationale. If no, please explain your rationale and changes required.	The historical approach to market power mitigation in the EOM will be effective on a go-forward basis. While Alberta's market concentration will shift with the expiration of the Power Purchase Arrangements ("PPA") come 2021, it will not, nor is it expected to for the foreseeable future, be in material excess of historical levels. Specific to ex-post oversight, it is important that the roles and responsibilities of each relevant agency are defined as misalignment introduces both inefficiency and uncertainty into the regulatory process. A broad review of agency mandates by the Government of Alberta should be conducted concurrent with this review of market power mitigation. Specific to the mitigation mechanisms included in the questions, Capital Power's comments are as follows: • OBEGs – Capital Power does not support publication of another set of OBEGs. While it is important to recognize the necessity of the exercise of market power in Alberta's EOM, that is best done, as previously mentioned, in legislation. • Ex-post monitoring – Capital Power supports the existing ex-post monitoring of market participants' activity. • Must Offer, Must Comply – Capital Power supports this set of rules that prohibit physical withholding. Concern has been expressed with components of this set of rules (i.e. that which deals with mothball outages) and we would support the AESO engaging in stakeholder consultation to address those concerns. • 30% offer control limit – Capital Power takes no issue with this offer control limit. Further comment on this follows in our next response. • FEOC Regulation – Capital Power supports Alberta's FEOC Regulation and reiterates our recommendation for improvements to it (and / or related legislation). Specifically; i) that it explicitly acknowledge the necessity of

		non-marginal cost offers and ii) that it make clear the roles and responsibilities of each agency relevant to the Alberta Power market.
3.	If deemed that additional mitigation measures are required in the energy-only market, please indicate whether they should be applied ex-ante (mitigation occurs prior to prices being set) or ex-post (mitigation occurs following market prices being set).	No additional mitigation measures are required. As previously mentioned however, Alberta's EOM could be improved through amendments to legislation. Need for additional mitigation measures must be demonstrated prior to assessing solutions. For example, market participants with relatively high, but less than 30% offer control, may require specific guidance and / or mitigation plans to ensure they do not abuse their market power. However, given the dynamic nature of Alberta's electricity market, including changes in offer control, such instances of specific mitigation plans are best dealt with on a case-by-case, participant-by-participant basis. With respect to the timing of mitigation, Capital Power offers the following: The key issue with ex-ante mitigation is the risk that it is either too allowable (which may result in excess exercise of market power) or too restrictive (which may result in a missing money problem). Should either of these risks materialize, the result would be a need for rule changes that would add market uncertainty for existing and prospective investment. Not to be confused with ex-post monitoring, ex-post mitigation (mitigating historical activity through the creation of counterfactuals) also has it challenges. Specifically, it is difficult, if not if not impossible to accurately conduct activities such as reconstituting price and reallocating costs and revenues.
4.	What has been effective in Alberta's historical approach to market power mitigation in the operating reserves market, and what could be improved?	Similar to the energy market, the FEOC Regulation and ex-post monitoring have generally been and can continue to be effective approaches to preventing market power abuse in the operating reserves market. It is important to note that given the operating reserves market is linked to the energy market – operating reserve prices are indexed to energy market prices – any change in market power mitigation approach in one market will likely impact the other. Specifically, a change in framework in one market risks artificially tilting market participants' preference towards energy or operating reserves resulting in over and under valuation; an inefficient market outcome.
5.	Do you expect the historical approach to market power mitigation in the operating reserves market (e.g. FEOC regulation, indexed to pool price) will be effective on a go-forward basis?	Capital power expects the historical approach to market power mitigation will be effective on a go-forward basis. We have no further comments in addition to those

	If yes, please explain your rationale. If no, please explain your rationale and changes required.	made in previous sections of this submission.
6.	If deemed that additional mitigation measures are required in the operating reserves market, please indicate whether they should be applied ex-ante (mitigation occurs prior to prices being set) or ex-post (mitigation occurs following market prices being set).	See the above response to Question 3. Capital Power's comments on this question in the context of the energy market apply here as well.
7.	What criteria should be considered in evaluating Alberta's mitigation framework? Would you rank one or some of these criteria more highly than others?	Two interconnected criteria must be prioritized when evaluating Alberta's mitigation framework: i) reliability and ii) competitive price outcomes. Alberta's market design, inclusive of its historical mitigation framework has delivered on these two criteria. This success is due in large part to a focus on dynamic efficiency and prioritization of those benefits over short term static efficiency. Implementation of a market power mitigation framework that shifts the focus on efficiency from dynamic to static would threaten Alberta's EOM's ability to deliver on the key criteria. Further, a static efficiency focused market power mitigation framework would move Alberta's electricity market away from one that is deregulated (and relies on market forces) towards one whose outcomes are more determined by administrative constructs.
8.	Are there unique characteristics of Alberta's electricity market that may impact whether the market power mitigation approaches used in other jurisdictions are suitable for Alberta? If so, please describe them.	Two key, unique characteristics of Alberta's electricity market that must be considered whether market power mitigation approaches in other jurisdictions are suitable for Alberta are : i) its EOM design and ii) its congestion-free transmission policy. With respect to Alberta's EOM design, it does not include an additional revenue stream for capacity. Energy and ancillary service revenue are the only sources of return in investment and hence the need for offers and price settles above marginal cost. Other markets, such as those in the North East US, that have administratively established market power mitigation rules are capacity markets. Shortfalls in required returns of investors, or "missing money", is intended to be made up with capacity payments. With respect to Alberta's congestion-free transmission policy, Alberta's market power can be assessed on a "total market" basis, rather than on a nodal or zonal level.
9.	What do you think the appropriate role for the AESO is in Alberta's mitigation framework?	Per Section 16(1) of the EUA, "The Independent System Operator must exercise its powers and carry out its duties, responsibilities and functions in a timely manner that is fair and responsible to provide for the safe, reliable and economic operation of the interconnected electric system and to promote a fair, efficient and openly competitive

		market for electricity." This duty is consistent with points Capital Power has made in earlier parts of this submission with respect to mitigation. The mitigation framework cannot stifle investment and must facilitate competitive outcomes.
10.	What do you think the appropriate role for the MSA is in Alberta's mitigation framework?	Per Section 39(1) of the Alberta Utilities Commission Act, "… Market Surveillance Administrator has the mandate to carry out surveillance …" and "… investigate matters … to address contraventions of the Electric Utilities Act … [and] … conduct that does not support the fair, efficient and openly competitive operation of the electricity market …" In summary, and in the context of Alberta's mitigation framework, the MSA's mandate includes surveillance, investigation and enforcement of market rules and the FEOC operation of Alberta's electricity market. It does not include the creation of market mitigation rules. At the conclusion of the Government of Alberta's review of agency mandates, the MSA's role in market power mitigation should be clearly defined to ensure it continues to support the legislative framework and the competitive market.
11.	Please describe your role in the Alberta electricity market.	
	a. Are you a load, a generator, both, neither (e.g. developer, storage, interested party)	Capital Power is an existing and future investor, owner and operator of generation as well as participant in the forward wholesale market.
	b. What is the approximate size of your load and/or generation?	Capital Power has 2366MW of generation in operation, including our shares of Joffre Cogeneration and Shepard Energy Centre plus 299MW of generation under construction and 1208MW in development.
	c. Do you participate in the energy market, AS market, both?	Capital Power participates in both the energy and AS markets.
	d. Do you forward hedge? If so, is it physically, financially, both? What percentage of your portfolio is hedged?	Capital Power forward hedges both physically and financially. The percentage of our portfolio that is hedged varies. Most recently we made public during our Q3 2019 Analyst Conference Call that the Company's Alberta portfolio is 53%, 2% and 10% for the years 2020, 2021 and 2022.

Thank you for your input. Please email your comments to: stakeholder.relations@aeso.ca.