

Stakeholder Comment Matrix – Apr. 9, 2020

Request for feedback on pricing framework review, session 2 material



Period of Comment: Apr. 9, 2020 through Apr. 23, 2020 Comments From: Capital Power Date: [2020/04/23]	Contact: [REDACTED] Phone: [REDACTED] Email: [REDACTED]
--	--

The AESO is seeking comments from stakeholders on its approach to reviewing the pricing framework, and content from session 2.

Questions	Stakeholder Comments
Price Cap Review	
1. Do you have comments related to the AESO's analysis on the response of interties to high prices?	<p>The AESO's analysis provides a helpful overview of how imports have responded historically to high prices in Alberta, however Capital Power cautions the AESO against relying too heavily on past behavior to indicate future performance.</p> <p>The Mid-C day-ahead and real-time markets can and have traded at prices higher than Alberta's price cap and as a result the Alberta power market has experienced underutilized import tie lines during EEA events. This highlights an opportunity to align Alberta's price cap with neighboring jurisdictions to facilitate more effective competition.</p>
2. Do you have comments related to the AESO's analysis on the response of long lead time assets to high prices?	<p>Capital Power believes that the AESO's analysis on the response of long lead time assets ("LLTA") to high prices is a reasonable first step, but is concerned that its conclusion that the current price cap does not appear to impede the operation of LLTAs ignores that with a higher price cap LLTA's or mothballed units may not have been offline in the first place.</p>
3. The AESO provided analysis related to load that may respond to prices greater than \$1000/MWh. Do you have comments related to the approach of that analysis?	<p>Capital Power is concerned that the AESO's approach to assessing demand response potential above \$1000/MWh may not accurately reflect the volume of load that would respond to higher prices because it is limited to loads that currently respond to the 12-CP tariff signal.</p> <p>Using response to 12-CP as an indicator for response to higher prices ignores a larger segment of the market that may respond to prices above the current price cap. Responding to 12-CP requires a high level of sophistication and forecasting ability,</p>

	Questions	Stakeholder Comments
		<p>as well as luck, and because it is calculated monthly there are no guarantees in avoiding the charge. This presents a barrier to broad market participation. Therefore, 12-CP response is likely not an accurate indicator of the volume of load that would respond to a higher hourly pool price.</p> <p>Capital Power supports the further analysis identified by the AESO on slide #26 and recommends that the AESO also consider issuing a survey to load participants.</p>
4.	Do you believe the amount of load the AESO indicated could respond to prices greater than \$1000/MWh is accurate? Please substantiate your response.	No, see response #3 above.
5.	If the price cap were increased, would loads be more incented to enter into energy market hedges? What would be the benefits and drawbacks to this?	It is unclear whether an increased price cap would incent further hedging in the energy market, as it would be dependent on a number of factors, including the level of the cap, expected frequency of high price excursions, and customer preferences and risk tolerances. All else equal however, if loads were to face increased risks of higher prices they wish to avoid, they would be more likely to hedge. Issuing a survey to load participants might help the AESO to better understand potential hedging preferences.
6.	What approach should the AESO use when determining the appropriate price cap level? Please substantiate your response.	<p>The AESO appears to be following the right approach when it comes to determining the appropriate price cap level for Alberta's energy-only market. First and foremost, the cap must allow suppliers to reflect their variable operating costs and provide them with a reasonable opportunity to recover their fixed costs over the long term, including a return on and of capital. Capital Power believes that in this sense the current price cap is sufficient and will continue to incent investment, ensuring supply adequacy.</p> <p>The next step which the AESO has initiated with this most recent stakeholder session, is confirming whether the price cap is sufficient to incent an appropriate response from supply and demand in during real-time shortage conditions. While the AESO's analysis appears to conclude that there is little a price cap increase would do to incent a greater response from supply and demand, Capital Power believes that incremental changes to the price cap could improve incentives to respond. Improved analysis related to demand response, LLTAs, and alignment with neighboring jurisdictions, could help support this case, as the potential efficiency gains may be higher than the AESO's current analysis shows.</p> <p>Finally, as the AESO has suggested, there must also be a consideration of the</p>

	Questions	Stakeholder Comments
		<p>“urgency of change” and whether immediate change is needed or whether a more gradual evolution is required. On this final point, Capital Power believes that while the urgency for immediate change to the price cap is not here today, this should not dissuade the AESO from pursuing incremental improvement in pursuit of greater efficiency. Further, there may be a point at which the current cap will not be sufficient and thus the AESO should continue to engage with stakeholders on a plan to make adjustments in the future.</p>
7.	<p>Do you believe market efficiencies could be gained by raising the level of the price cap? What are the tradeoffs? Please substantiate your response.</p>	<p>As mentioned above in response #6, yes, Capital Power does believe that there are efficiencies to be gained by raising the level of the price cap and those efficiencies relate to improved response from supply and demand in shortage situations and better alignment with neighboring jurisdictions.</p>
8.	<p>Is there additional analysis the AESO should complete to review the efficiency of the price cap?</p>	<p>See comments above.</p>
<p>Price Floor Review</p>		
9.	<p>The AESO provided analysis related to the volume and prices of potential renewable generation market based curtailment. Do you have comments related to the volumes or price levels described in that analysis?</p>	<p>Capital Power has no comments.</p>
10.	<p>The AESO provided analysis related to the volume and prices of potential thermal generation market based curtailment. Do you have comments related to the volumes or price levels described in that analysis?</p>	<p>Capital Power believes that the AESO’s analysis of thermal curtailment economics is incomplete and therefore does not accurately reflect the volume of thermal generation that would “turn off” at various negative price levels. The AESO’s approach ignores the opportunity cost of lost revenue, which it says is expected to be minimal (slide #50). However, the methodology described based on start-cost is not representative of how curtailment decisions are made in an energy-only market. Such decisions include both a consideration of potential revenue as well as opportunity costs.</p> <p>The AESO’s analysis also does not incorporate considerations of physical unit constraints (e.g., minimum up and down times). In the case of negative pricing, thermal operators would have to take in to account the expected duration of negatively-priced hours, lead time to bring a unit back to market as well minimum run time considerations. Therefore, without inclusion of these considerations the AESO’s</p>

	Questions	Stakeholder Comments
		<p>analysis would not reflect the volume of thermal generation that would be curtailed.</p> <p>Additionally, the AESO has not completed analysis related to the curtailment economics of gas cogeneration which represents a significant portion of thermal generation in the province that would be expected to be relatively inelastic to negative pricing levels like those assessed.</p>
11.	Historically, the AESO has largely used import curtailments to manage supply surplus conditions. Is this an adequate approach to managing future supply surplus conditions?	Capital Power believes that the AESO's current approach to managing supply surplus conditions is adequate for the market at this time, but the approach will need to evolve as the market does and as more variable and non-flexible supply is added.
12.	Do you believe that market efficiencies could be gained by establishing a lower price floor? What are the tradeoffs? Please substantiate your response.	<p>Yes, Capital Power does believe that efficiencies could be gained by establishing a lower price floor in Alberta, however the urgency for such a change is not immediate. Moving to negative pricing would represent a fundamental change to Alberta's pricing framework and is not something that should be rushed in to. Given current economic realities and uncertainties about future power demand, market certainty is of utmost importance to investors. Proceeding with this type of evolutionary change at this time would be ill-advised.</p> <p>In addition to more robust analysis related to curtailment economics and expectations, there are many factors that need to be considered with respect to negative pricing, including revenue sufficiency impacts, changing asset risk profiles and other commercial impacts. Negative pricing can also accentuate the impact of out-of-market subsidies on the market, which unchecked could create a missing money problem in the market which would have adverse impacts on resource adequacy. The AESO should continue to assess lowering the price floor in conjunction with future price cap engagement, however immediate change is not required.</p>
13.	Is there additional analysis the AESO should complete to review the efficiency of the price floor?	Capital Power has no comments at this time.
Stakeholder Engagement		
14.	In the next stakeholder session, the AESO plans to present alternative price cap and floor design alternatives. In the final stakeholder session the AESO would like to hear directly from	Capital Power may be interested in presenting its views at a future session and wishes to review the AESO's response to stakeholder comments and any proposed

	Questions	Stakeholder Comments
	<p>stakeholders or groups of stakeholders. The format will be dependent on the number of respondents. Would you be interested in presenting individually or as part of a group on any element of the pricing framework the AESO has communicated on during this stakeholder engagement?</p> <p>If yes, please indicate which topics you may be interested in discussing. Note, industry associations notwithstanding, the AESO would prefer to have stakeholders represent themselves rather than have third parties present on behalf of stakeholders.</p>	<p>design alternatives before confirming.</p>
15.	<p>Was the Zoom meeting approach used for this engagement effective?</p> <p>If no, please provide specific feedback on how the AESO can make these sessions more effective.</p>	<p>Yes, the Zoom meeting approach was effective.</p>
16.	<p>Please provide any other comments you have related to the pricing framework engagement.</p>	<p>Capital Power recognizes that the AESO's current engagement results from a direction from the Government of Alberta and that it is required to report back to Government in July 2020. Given these constraints and the above comments, Capital Power believes that the AESO should focus the remainder of its current engagement on answering the question "is immediate change required?". After that question has been answered, the AESO should then shift its focus to working with stakeholders to develop a longer-term roadmap for more evolutionary change (such engagement could continue after a response has been provided to Government).</p>

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