

Tariff Design for Capacity Market and Bulk and Regional Transmission Cost Allocation – Industry Update (March 13, 2019)

Period of Comment:	March 14, 2019	through	April 10, 2019	Contact:	Colin Robb
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Please provide comments relating to the topics listed below in the corresponding box. For convenience, references to slides from the March 13 [Industry Update](#) where each topic was discussed are included in the table below. Please include any views about whether the content presented sufficiently addressed the topic, and provide any proposed alternative or additional approaches that should be considered.

Slides	Topic	Stakeholder comments
Tariff Design Consultation Process		
5-11	AESO tariff design consultation approach, scope, and process.	Capital Power Corporation (“Capital Power”) generally supports the AESO’s consultation process and scope regarding the treatment of capacity costs and the allocation of bulk and regional transmission charges. As a member of the Tariff Design Advisory Group (“TDAG”), Capital Power has been involved in the ongoing discussions as a representative of large wholesale generators. With membership in the workgroup limited to AESO-selected representatives, sessions like the one hosted on March 14 are critical to ensure the AESO receives broad perspectives of all market participants. Capital Power requests that the AESO continue to host broad industry consultations at key junctures of the process including in advance of deliberating on recommendations and the application to the Alberta Utilities Commission (“AUC” or “Commission”).
Capacity Market Cost Allocation Tariff Development Update		
15-20	Requirements of <i>Capacity Market Regulation</i>	<p>Capital Power acknowledges that the language of the <i>Capacity Market Regulation</i> (the "Regulation") prescribes several aspects of capacity cost allocation. Likewise, the AESO appears to have recognized that these requirements limit the options available to it in considering the design of a reasonable cost allocation framework. As such, the AESO is left to use its discretion in establishing the most appropriate rate possible given the legislative constraints. This includes establishing the appropriate balance between a rate that sends an efficient price signal and one that treats all rate classes fairly. However, it is currently unclear how the AESO intends on achieving this balance. Therefore, Capital Power strongly recommends that further review is needed to assure stakeholders in a transparent manner that the rates do not, for example, create material undue cross-subsidization or inequity between customers classes.</p> <p>Capital Power is concerned that, for example, the options considered by the TDAG to date do not sufficiently consider the contribution of exports to capacity costs. Exports are only available to market participants when adequate capacity exists on the transmission system to accommodate the volumes requested. Given that the AESO does not intend to procure capacity to cover a specific volume of exports, costs allocated to this class under the weighted approach should be commensurate. This is consistent with the relevant provisions of the Regulation where, for</p>

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		example, the language at Section 12 (5) requires the time blocks to be established with each block “ <i>consisting of hours within the obligation period that are reasonably similar with respect to the anticipated contribution that the demand for and supply of electric energy in each of the hours has on the amount of capacity needed in the obligation period</i> ”. Capital Power submits that further discussions regarding exports and the impact approaches being considered will have on this rate class is required.
21-22	Resource adequacy model and unserved energy	In the material provided at the TDAG and industry sessions, the AESO consistently reiterates that the Resources Adequacy Model (“RAM”) is a tool that was designed and specified to produce reliable annual aggregate results but not intended to provide exact forecasts for hourly values. In establishing the parameters of the weighted energy method, however, the workgroup is relying heavily on the hourly results of the RAM which was not intended for these purposes. Therefore, Capital Power submits that specifying a method based on the RAM may be inappropriate.
22	Distribution of expected unserved energy throughout the obligation period	The distribution of unserved energy hours displayed in the data reflects observed patterns from historical data. As the AESO has noted in the workgroup, a significant portion of hours where unserved energy is observed can be attributed to supply outages. With the implementation of the capacity market, the behavior of supply resources and the timing of outages may change leading to changes in the distribution of EUE hours in the heat map. Consequently, Capital Power submits that the dynamic nature of supply outages should be considered on a prospective basis as part of the weighted energy method and used to determine whether it is appropriate to heavily weight certain hours over a smaller number of hours.
23-27	Bookend scenario analysis	Capital Power has concerns regarding the assumptions that were made in the bookend scenario analysis, specifically those that led to the conclusions that narrow peak scenarios resulted in lower gross procurement volumes of capacity. Capital Power submits that additional sensitivities are necessary to understand the impacts in the bookend scenarios if load-shifting volumes are well in excess of 300 MW. Similarly, additional scenarios should be run to consider the impact if load moves from on-peak periods to mid-peak periods. Under all scenarios, the AESO should be assessing the bill impacts to all customer classes from these changing load behaviors and making the results publicly available.
25	Observations on bookend analysis results	The magnitude of changes in procurement volumes that are observed in the AESO’s bookend analysis are a level that, in Capital Power’s view, could be attributable to forecast error. Therefore, to base a weighted energy method off observed relationships may be inappropriate without greater confidence in the model to produce reliable hourly results.
26	Objectives for cost allocation rate design	Capital Power supports the broad objectives of rate design provided by the AESO. However, Capital Power cautions the AESO that relying on the rates to provide “ <i>appropriate</i> ” price signals may be limited by the constraints in legislation. Therefore, the objective of designing rates that are fair, equal, and avoid undue discrimination is paramount.
28-30	Development of 400-hr on-peak time block	Capital Power submits that additional evidence is required to substantiate the claim that “ <i>industrial loads can curtail in no more than 400 hours without impacting production capability</i> ”. As this claim is one of the bases for selection of a 400 hour on-peak time block, evidence is required to substantiate this generalization and simplification of load behavior.
31-32	Considerations for weights of time blocks	Capital Power submits that the AESO should consider adding an additional time block, reflecting the variability in expected EUE in the mid-peak block. Further, the AESO should consider adding a weighting to off-peak hours. This would better reflect the nature of the capacity product, which provides value to the system in all hours.

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		<p>In establishing the weightings, Capital Power notes the inconsistency in the methods used to derive the 4:1:0 and 14:1:0 rates. Relying on historical load behavior, while indicative of past relationships, may not be accurate for assessment of future price dynamics in a capacity market with materially different characteristics including, but not limited to, energy market mitigation.</p>
33-34	Potential rate ranges	<p>Capital Power supports a rate that is fair, equal and minimizes cross-subsidies. In the range of rates considered by the workgroup, rates that provide very significant ex-ante price signals to loads may not satisfy these objectives. The AESO should be cautious in establishing rates that disproportionately and/or unduly impact any particular customer class.</p> <p>In establishing rates, Capital Power also has concerns around level playing field issues that may arise between market participants. Loads that respond to high price signals capture the benefit of that rate. The AESO must consider whether it is appropriate to incent load behavior from prices that exceed the rates that are required to secure additional supply resources through the capacity auctions without any commensurate benefit. It should also be noted that the ex-ante nature of the rates will result in load behavior that may not correspond to real-time system conditions. It is, therefore, possible that the AESO could assign a rate that allows loads to capture significant value irrespective of their contribution to lowering system stress, procurement cost and improving supply adequacy.</p>
34	Appropriate range of weight ratios to consider	<p>An appropriate range of ratios would be one that results in prices that are reflective of the marginal value of load response and the respective contributions of each customer class to the capacity requirement.</p>
35-38	Additional considerations for rates	<p>Capital Power has no additional comments at this time.</p>
39-43	Terms and conditions considerations	<p>Concerns around self-supply and the potential reliability impacts resulting from drawing above their expected levels during times of system stress is an issue that was well documented and discussed in the AESO process to develop the capacity market. Though a penalty mechanism is not permissible under the relevant regulations, the potential impacts to reliability remain. The AESO should consider other appropriate means to ensure this issue is managed and reliability maintained.</p>
40	Regulation does not permit penalties or incentives	<p>See comments above.</p>
42	“Gross up” of POD metered volumes to adjust for distributed generation	<p>Capital Power has no comments at this time.</p>
43	Preferred approach for deferral account true-up	<p>Capital Power submits that the AESO should endeavor to minimize the amounts of any deferral accounts that are implemented to manage forecast error in the settlement process.</p>
44	Allocation of capacity market costs to transmission losses	<p>In Capital Power’s view, continued discussion on implementation of the proposed rates to account for line losses is necessary. Meetings on this aspect have been preliminary to date and it remains unclear whether the approaches being considered by the AESO sufficiently avoid sending price signals that could encourage dispatches that negatively impact or exacerbate a supply adequacy issue</p>
45	Capacity market cost allocation remaining work	<p>The AESO should continue to seek additional feedback through broad industry consultation prior to filing an application with the Commission.</p>

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Update on Bulk and Regional Transmission Cost Allocation		
48-51	Bulk and regional transmission cost allocation current work, future work, and next steps	Capital Power supports the AESO taking a stronger leadership position in the TDAG workgroup to advance contentious discussions on the matter.
Additional Comments		
—	Please add any additional comments related to tariff design for allocating capacity market and bulk and regional transmission costs should be considered.	Capital Power has no further comments at this time.