

Stakeholder Comment Matrix – Feb. 12, 2020

Request for feedback on pricing framework review, session 1 material



Period of Comment: Feb. 12, 2020 through Feb. 26, 2020 Comments From: Capital Power Date: 2020/02/28	Contact: [REDACTED] Phone: [REDACTED] Email: [REDACTED]
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The AESO is seeking comments from stakeholders on its approach to reviewing the pricing framework, and content from session 1.

1. Please fill out the section above as indicated.
2. Please respond to the questions below and provide your specific comments.
3. Email your completed matrix to stakeholder.relations@aesoc.ca by Feb. 28, 2020
4. Stakeholder comments will be published to aesoc.ca, in their original state, with personal or commercially sensitive information redacted, following Feb. 28, 2020. The AESO will not be responding directly to any submissions, but submission feedback will be considered for the final recommendation.

	Questions	Stakeholder Comments
1.	At the session, the AESO outlined the objectives of the pricing framework, which includes ensuring both long term adequacy and ensuring efficient short-term market response. Do you have any comments on the objectives of the pricing framework?	Capital Power agrees with the AESO's stated objectives of Alberta's pricing framework and has no additional comments.
2.	Please provide your comments on the AESO's description of Alberta's Energy-Only Market Pricing Framework, and the administrative price levels, in particular the purpose of the <u>offer cap</u> . Is there anything you would change or add to this description?	<p>Capital Power generally agrees with the AESO's stated purpose of the offer cap outlined in slide 16 of its Pricing framework review presentation of February 12, 2020 (the "Presentation"). The underlying purpose of the offer cap is well summarized at the bottom of the slide; "The offer cap should provide a reasonable opportunity for the marginal generating asset to recover its fixed costs ...".</p> <p>On the first point in the same slide however, while the offer cap can protect consumers and "May [emphasis added] address potential market power issues ...", Capital Power disagrees if the AESO is suggesting that protecting consumers is the first and main priority of the cap.</p> <p>Alberta's market power is dealt with through a separate framework that does not</p>

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		<p>include the offer cap. Reiterating our comments made during the AESO's October, 2019 stakeholder engagement on Market Power Mitigation; "market power has been effectively dealt with by 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)". In the Stakeholder Comment Matrix where Capital Power made those comments, the AESO listed examples of Alberta's market power mitigation mechanisms, none of which included the offer cap.</p>
3.	<p>Please provide your comments on the AESO's description of Alberta's Energy-Only Market Pricing Framework, and the administrative price levels, in particular the purpose of the <u>price cap</u>.</p> <p>Is there anything you would change or add to this description?</p>	<p>Capital Power generally agrees with the AESO's stated purpose of the price cap outlined on slide 17 of the Presentation. Again, the AESO's summary at the bottom of that slide is helpful.</p> <p>On the first point of slide 17 however, similar to the offer cap, Capital Power disagrees if the AESO is suggesting that limiting excess wealth transfer is the first and main priority of the cap. Further, the scope of that purpose, to "Limit excessive wealth transfer ..." should be narrowed to instances of shortage periods.</p> <p>Prevention of excessive wealth transfer, both ways, is achieved through market efficiency including transparent price signals on which participants interact and compete. Alberta's Energy-Only Market has demonstrated such efficiency as proven by attraction of investment capital resulting in healthy reserve margins and a long run price near the all-in cost of production.</p>
4.	<p>Please provide your comments on the AESO's description of Alberta's Energy-Only Market Pricing Framework, and the administrative price levels, in particular the purpose of the <u>price floor</u>.</p> <p>Is there anything you would change or add to this description?</p>	<p>Capital Power agrees with the AESO's summary statement on the purpose of the price floor and has no additional comments.</p>
5.	<p>The AESO's forward looking resource adequacy assessment indicates that the energy only market with the existing offer cap will provide reasonable financial returns while meeting the supply adequacy requirements.</p> <p>Do you agree with the AESO's conclusions?</p> <p>If no, please describe your concerns.</p>	<p>Based on the information presented, Capital Power can accept the AESO's conclusions but notes that numerous assumptions had to be made on, in some cases, highly uncertain variables whose uncertainty increases over time. Such uncertainty may result in the AESO's conclusions ultimately being incorrect which could result in insufficient resource adequacy. The AESO appears to acknowledge this on Slide 32 of the Presentation; "Throughout the various scenarios the ... framework <i>appears</i> [emphasis added] to provide reasonable financial returns ..."</p> <p>Capital Power, therefore, supports the AESO not making drastic changes but</p>

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		<p>recommends that it remain open to suggestions to evolve its pricing framework in ways that would reduce the risk of insufficient resource adequacy. For example, the concept of increasing the offer and price cap to account for inflation has been raised. Such a change could be an improvement that might increase the probability of these caps successfully serving their purposes. Alberta power is a deregulated market that relies on price signals to incent participant action. The better prices can signal action, the more efficient the participant response. This concept is acknowledged on Slide 17 of the Presentation.</p> <p>Capital Power also recommends the AESO take the opportunity through this review to identify triggers that would signal a need and / or establish a schedule for future reviews.</p>
6.	<p>The AESO's historical revenue sufficiency assessment indicates that the energy only market with the existing offer cap has historically sent efficient and timely price signals to the market. Historically assets have been added when pricing signals indicated that profitable entry could occur.</p> <p>Do you agree with the AESO's conclusions? If no, please describe your concerns.</p>	<p>Capital Power agrees with the AESO's conclusion but this does not imply that certain aspects of the pricing framework could not have been enhanced.</p>
7.	<p>Are there foreseeable situations where asset variable costs would be greater than \$999.99/MWh? If yes, please describe the situation.</p>	<p>Capital Power does not foresee such situations.</p>
8.	<p>The AESO has described the scope for this process, general agenda items and timing for upcoming stakeholder engagements, with the timing of the sessions aligned with the AESO's deliverable to the Government of Alberta Energy Minister.</p> <p>Please describe if you believe the scope is appropriate. If not, please describe/provide your rationale.</p>	<p>Capital Power believes the scope for this process is appropriate. Of particular importance is the first item the AESO lists on slide 12 that is Out of Scope; Market power mitigation. Capital Power expects the AESO assumes that portfolio bidding is permissible and necessary in the modelling that led to its conclusions. If our expectation is correct, we agree with that assumption and that market power mitigation should be out of scope.</p> <p>It is confusing however that the sub bullet on Market power mitigation includes, "unless pricing framework option warrants change". To avoid this circular issue, Capital Power recommends the AESO maintain a consistent assumption that portfolio bidding is permissible and necessary and only assess pricing framework alternatives that do not warrant changes in that assumption.</p>

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9.	Is the approach used for this engagement effective? If no, please provide specific feedback on how the AESO can make these sessions more constructive.	Yes.
10.	Please provide any other comments you have related to the pricing framework engagement.	Capital Power has no additional comments.

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