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April 10, 2019

VIA EMAIL: tariffdesign@aeso.ca

Alberta Electric System Operator
Calgary Place
2500, 330 – 5 Avenue SW
Calgary, Alberta T2P 0L4

Attention: Doyle Sullivan, Director, Tariff Design

Dear Mr. Sullivan,

Re: Generator Group submission to the Tariff Design Advisory Group

Capital Power Corporation ("Capital Power"), as the representative of generators on the Alberta Electric System Operator's ("AESO") Tariff Design Advisory Group ("TDAG"), submits the following comments for consideration by the working group. The comments represent the common views of Capital Power, TransAlta Corporation, ENMAX Corporation and ATCO Power Canada Ltd. (collectively, the "Generator Group") on the discussions that have occurred regarding the allocation of capacity costs at the TDAG to date. Members of the Generator Group will also be submitting individual feedback separately for consideration.

In summary, the Generator Group has **3 recommendations**:

i) ***Further review and consultation are required to eliminate/minimize undue cross-subsidization across rate classes;***

ii) ***Discussion is required regarding exports and the impact approaches being considered will have on this rate class; and***

iii) ***Additional technical sessions should be held to discuss capacity costs attributable to transmission line losses.***

The rationale for these recommendations is provided below.

A. ***Number of Blocks and Associated Weights May Create Risk of Undue Cross-subsidization***

In establishing rates under the weighted energy method, the Generator Group submits that the AESO must balance the desire to incent behavior through price signals with the constraints imposed by the *Capacity Market Regulation* ("Regulation"). Beyond simply reducing the capacity volumes to be procured, however, it remains unclear what efficient behavior the AESO intends on signaling through its rate design. In any case, the AESO should, in reaching a recommendation, work to ensure that the number of time blocks and their weightings reflect the principle of cost causation to the greatest extent possible. Failure to do so could result in cost-avoiding behavior by some customer classes with no commensurate benefit to actual system costs, thereby causing other classes to shoulder a greater and disproportionate share relative to their contribution. Such cross-subsidization poses a risk to long-term sustainability of the market. The AESO itself has recognized that undue cross-subsidization should be limited.[1] Further, such a framework would provide limited benefit to system reliability due to its inability to link rates to real-time system conditions.

[1] Slide 7, "Tariff Design for Capacity Market and Bulk and Regional Transmission Cost Allocation" – AESO Presentation, March 13, 2019, <https://www.aeso.ca/assets/Uploads/AESO-Presentation-March-13-2019-Industry-Update.pdf>

Recognizing the constraints of the Regulation, the Generator Group submits that the AESO should undertake further review and consultation of the proposed rate design to ensure, among other things, the equitable treatment of and reasonable rates for all customer classes.

B. Exports May Be Allocated an Unfair Share of Capacity Costs

Section 12 (5) of the Regulation specifies that a single rate is to be applied to all forms of system access service whose members receive electricity from the transmission system. The Generator Group understands that the AESO interprets this to include exports, specifically Rate XOS (Export Opportunity Service) and Rate XOM (Export Opportunity Merchant Service).

In establishing the parameters of the weighted energy method, the Regulation focuses on the need for costs to reflect the impact that a class of system access service has on the amount of capacity needed in an obligation period. Exports are only available to market participants when sufficient capacity exists on the transmission system to accommodate these flows; however, under system stress these volumes are curtailed. Further, in the design of the capacity market, the AESO does not intend to procure capacity to cover a specific volume of exports.[2] Therefore, costs allocated to exports under the weighted approach should be commensurate. This is both reflective of the intent of the Regulation and with principles of cost causation. Under the options considered to date, however, it's unclear that the cost allocation to exports will be equitable. The Generator Group believes further discussion on exports and an assessment of the potential weightings on this and other rate classes are required.

C. *More Details Regarding the Allocation of Capacity-Related Losses Costs Are Required*

The AESO proposes to apply the rates derived under the cost allocation method to total system losses. Only preliminary discussions with the AESO have been held to date. There it was noted this could be accomplished under existing and revised provisions of the *Regulation* and the *Transmission Regulation*. However, further details in this regard are required. The Generator Group, therefore, submits that the AESO should hold further technical sessions with appropriate stakeholders to discuss the collection of capacity costs attributable to transmission line losses.

The Generator Group acknowledges the constraints imposed by the Regulation and appreciates the ongoing discussion regarding appropriate implementation. To avoid price signals to generators that encourage dispatch that could negatively impact or exacerbate a supply adequacy issue, the AESO should implement a rate that is consistent with the principles described above. The current direction taken has not fully explored additional structures that may result in a more equitable outcome.

The Generator Group appreciates the AESO's continued engagement on these matters, and the opportunity to provide feedback to the TDAG. Questions on the items noted above can be directed to the undersigned, or to the alternate generator representative (Akira Yamamoto - Akira_Yamamoto@transalta.com).

Regards,

<submitted electronically>

Colin Robb

Senior Advisor, Regulatory and Environmental Policy
Capital Power Corporation

Cc:
Akira Yamamoto, TransAlta Corporation
Randall Stubbings, ENMAX Corporation
Kurtis Glasier, ATCO Power Canada Ltd.

[2] In ISO rule 207.1, *Resource Adequacy Model*, which is currently before the AUC for approval, the AESO does not include exports in its consideration of variables that impact supply and demand fundamentals in Alberta.