

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	Contact: [REDACTED]
Comments From: Powerex Corp.	Phone: [REDACTED]
Date: 2020/02/18	Email: [REDACTED]

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@aeso.ca by Feb. 28, 2020*
- 4. Stakeholder comments will be published to aeso.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.	<p>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?</p>	<p>The AESO states that an efficient short-term market response “ensur(es) that the pool price creates the right signals for the market and administrative price levels do not hinder these signals.”</p> <p>Powerex requests that the AESO consider both FERC Order 831, along with west-wide supply tightening when considering if the AESO’s market pricing framework incents the right signal to the market. Other North American markets’ pricing framework is particularly important for import supply that has optionality.</p> <p><i>(Please refer to PWX’s response to question 6 for more detail on FERC Order 831, along with west-wide supply tightening).</i></p>
2.	<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>offer cap</u>.</p> <p>Is there anything you would change or add to this description?</p>	<p>Among other elements, the AESO states that the purpose of the Offer Cap is to “allow suppliers the ability to reflect their variable operating costs”.</p> <p>Powerex requests that the AESO contemplate FERC Order 831 when considering variable operating costs for external suppliers. Although imports currently cannot set price in Alberta, this situation could change moving forward.</p> <p><i>(Please see PWX’s response to question 6 for more detail on FERC 831).</i></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>Among other elements, the AESO states that the purpose of the Price Cap is to “incent efficient supply response during shortage events.”</p> <p>Powerex requests that the AESO contemplate FERC Order 831, along with the west-wide supply tightening when considering External Suppliers’ response during shortage events.</p> <p><i>(Please see PWX’s response to question 6 for more detail on FERC 831, along with west-wide supply tightening).</i></p>

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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>According to the AESO, the Price Floor is used to help:</p> <ul style="list-style-type: none"> - Mitigate risk to producers of sustained negative pricing - Allow for efficient pricing during supply surplus events <p>Given the AESO's planned renewable additions, Powerex is of the opinion that dropping the export charge (Rate XOS) when prices drop below a certain level, or during times of forecast supply surplus, could incent an efficient market response. This could be in addition to lowering the price floor, or as a standalone initiative.</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? If no, please describe your concerns.</p>	<p>Based on the available details from the AESO's Pricing Framework Review (February 2020), it is unclear how much import supply Alberta is anticipating to receive during shortage events going forward. This is an important detail when forecasting future supply adequacy for Alberta.</p> <p>FERC Order 831 has resulted in a \$2000 offer cap for SPP and the MISO. The CAISO will follow with a similar \$2000 offer cap in late-2020.</p> <p>Further, it is well documented that the Northwest electricity system is forecast to be short of capacity by the mid-2020s.</p> <p>Alberta will be increasingly competing for import supply during tight supply situations going forward. This should be contemplated when considering amendments to the AESO's pricing framework.</p> <p><i>(Please see PWX's response to question 6 for more detail on FERC 831, along with west-wide supply tightening and PWX's response to question 7 for some further discussion on offer caps to ensure supply adequacy).</i></p>

<p>6.</p>	<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>1. <u>FERC Order 831 – US RTO offer cap to \$2000/MWh (USD)</u></p> <p>According to the AESO, the price cap would warrant a revision if it became a barrier to efficient clearing during shortage conditions.</p> <p>FERC Order 831 requires that market operators cap each resource's incremental energy offer at the higher of \$1,000/MWh (USD) or that resource's verified cost-based incremental energy offer and to cap the verified cost-based incremental energy offers used to calculate LMP at \$2,000/MWh (USD).</p> <p>Since FERC implemented Order 831 in 2016, both MISO and SPP have implemented offer caps of \$2000/MWh (USD). The CAISO is planning to implement a similar \$2000/MWh (USD) offer cap by fall 2020.</p> <p>External suppliers to Alberta participate in the above listed centrally administered markets. In the near future, there may be situations in which Alberta will be competing for import supply against these markets.</p> <p>2. <u>West-Wide Supply Tightening</u></p> <p>The below excerpt is from a Northwest Power Pool report by Energy + Environment Economics (E3), published October, 2019.</p> <p><i>The Northwest electricity system is in transition. The resource mix of the past—dominated by hydro but supplemented by thermal generation—is materially different than the emerging paradigm that includes large amounts of renewables. The impending retirement of a number of generators in the region has led to questions about whether the region will continue to have an adequate supply of electricity.</i></p> <p><i>In the past several years, a number of groups—the Bonneville Power Administration (BPA), the Pacific Northwest Utilities Conference Committee (PNUCC), and the Northwest Power and Conservation Council (Power Council), and consulting firm Energy & Environmental Economics (E3)—have examined how anticipated changes to loads and resources in the Pacific Northwest will affect utilities' ability to meet customer needs reliably. Despite differences in assumptions and methodology, these studies identify an urgent and immediate challenge to the regional electricity system's ability to provide reliable electric service. Two key conclusions are of particular concern:</i></p> <p><i>1. The region may begin to experience capacity shortages as soon as 2020; and</i></p>
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	Questions	Stakeholder Comments
		<p>2. By the mid-2020s, the region may face a capacity deficit of thousands of megawatts.</p> <p>Source: https://www.nwpp.org/private-media/documents/2019.11.12_NWPP_RA_Assessment_Review_Final_10-23.2019.pdf</p> <p>The AESO noted within the Pricing Framework Review that an increase in the price cap could encourage more response from load or generation resources (demand response, imports, long lead time assets, generator returns from outages).</p> <p>Powerex requests that the AESO contemplate the importance FERC Order 831, along with the west-wide supply tightening when considering amending its offer, or price cap.</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><i>(Please refer to the Powerex's response to question 6 above).</i></p> <p>FERC Order 831, along with the west-wide supply tightening may result in situations where Alberta is competing for import supply that can receive a greater price than the AESO's current price cap of \$1000/MWh (CAD). If the AESO is in an EEA1 or higher it would be rational to have a price cap greater than \$1000/MWh (CAD), even if the offer cap is maintained at \$1000/MWh (CAD). It would make sense for the price cap to be set at the FERC Cap level of \$2000/MWH (USD).</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>N/A</p>

	Questions	Stakeholder Comments
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.	N/A
10	Please provide any other comments you have related to the pricing framework engagement.	N/A

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