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Alberta Electric System Operator
2500 330 5th Avenue SW
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Attention: Doyle Sullivan, Director, Regulatory, AESO

Dear Mr. Sullivan:

RE: Capacity Cost Allocation to Exports

TransAlta provides the following policy and regulatory interpretation of the *Capacity Market Regulation* as it applies to Export Opportunity Service ("XOS"). Our findings are that the AESO has erred in its interpretation that the Government of Alberta intended that capacity cost allocation rate design should apply to XOS or that capacity costs are required to be allocated to XOS under the *Capacity Market Regulation*.

The Government of Alberta did not intend capacity costs to apply to XOS

The Government of Alberta issued its first discussion paper, *Continuing the Conversation Stakeholder Paper No.1 – Capacity Market Regulation*, on regulatory concepts for the Capacity Market Regulation in July 2018. In that paper, the Government stated the following with respect to Principles the AESO must have regard for in implementing the Weighted Energy Method:

> <u>Cost of the capacity market are to be allocated to all entities which have contributed to the amount of capacity procured or gain benefit from the availability of capacity during the capacity delivery period.</u>
>
> The AESO must develop one set of time blocks and weights to be applied consistently to all classes of system access service that receive energy from the transmission system and to transmission system losses. The AESO would not be empowered to develop a separate set of time blocks and weighted for an individual rate class or subset of consumers.[1]

[1] Page 13, *Continuing the Conversation Stakeholder Paper No.1 – Capacity Market Regulation* (https://www.energy.alberta.ca/AU/History/Documents/ContinuingConversationCapMktReg.pdf)

In August 2018, the Government issued written responses to questions that it had received during its July 25, 2018 stakeholder webinar. It provided the following responses that were relevant to the treatment of exports:

> **Will exports be charged capacity market costs?**
>
> Capacity costs will be allocated to exports using the weighted energy method, in the same manner as these costs are allocated to all load. This direction is consistent with the policy intension to allocate capacity costs to all entities that contributed to the amount of capacity procured or gain benefit from the availability of capacity.

Subsequently, in October 2018, after the Government had concluded its consultation it issued a third and final paper, *Results of the Conversation Stakeholder Paper No. 3 – Revised Regulatory Concepts*, which contained the following revisions to the previously proposed regulatory concept with respect to the Principles the AESO Must have Regard for in Implementing the Weighted Energy Method:[2]

Proposed Regulatory Concept	**Revised Regulatory Concept**	**Rationale for Change**
Cost of the capacity market are to be allocated to all entities which have contributed to the amount of capacity procured or gain benefit from the availability of capacity during the capacity delivery period.	Costs of the capacity market are to be allocated to all entities which have contributed to the need for the amount of capacity procured for the obligation period.	The weighted energy method assigns costs on the basis of the impact of energy consumption patterns on the need for having the capacity available to meet the load. Part of the language that referred to "gain benefit from" was not consistent with the broader regulatory construction of the weighted energy method. However, the principle is still achieved through the specific design of the weighted energy method stated elsewhere in the proposed regulatory construct.

The revision to the regulatory concept was intentional and removed reference to "gain benefit from the availability of capacity" which may apply to export service. The revised regulatory

[2] Page 11, *Results of the Conversation Stakeholder Paper No. 3 – Revised Regulatory Concepts* (https://www.energy.alberta.ca/AU/History/Documents/ResultsConversationUpdate.pdf)

construct is clear that the costs of the capacity market are (only) to be allocated to all entities that contribute to the need for the amount of capacity procured in the obligation period.

Exports do not contribute to the need for the amount of capacity procured in the obligation period. Exports are not loads that impact the energy consumption patterns on the need for having the capacity available to meet the load. Exports are not included in the load forecast used in Resource Adequacy Modeling nor are they considered in determining the gross minimum procurement volume.

XOS is only available when there is sufficient capacity on the transmission system to accommodate the capacity scheduled for export. Exports are curtailed in a supply shortfall or foreseeable risk of supply shortfall and, as such, the AESO's rules, procedures and tariff prevent exports having any adverse impact to system reliability or the resource adequacy requirement.

Additionally, charging capacity costs to exports that do not contribute the amount of capacity procured in Alberta will make exports less competitive, which are a source of revenue that reduce the cost of capacity for Albertans down. This is contrary to legislative objective of a capacity market that achieves reasonable cost to consumers.

Furthermore, not charging capacity cost to exports does not create a separate set of time block and weights for an individual rate class. It rightfully excludes allocation of cost of the capacity market to an individual rate class that makes no contribution to the need for capacity procured in Alberta.

Interpretation of the Capacity Market Regulation

Subsection 12(4) of the *Capacity Market Regulation, AR 260-2018* states:[3]

> The ISO must, in the tariff submitted by the ISO under section 30 of the Act, allocate the costs of the capacity market for an obligation period to
>
> (a) all classes of system access service <u>whose members receive electricity from the transmission system</u>, and
>
> (b) transmission line losses, …

Rate XOS applies to "market participants who export electric energy from the interconnected electric system utilizing an intertie". Members of this rate class do not "receive" electricity from the transmission system but are instead engaged in an export interchange transaction. "Interchange transaction" is defined in the *Consolidated Authoritative Document Glossary as*:[4]

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[3] http://www.qp.alberta.ca/documents/Regs/2018_260.pdf

[4] Page 16, *Consolidated Authoritative Document Glossary* (https://www.aeso.ca/assets/Uploads/Consolidated-Authoritative-Document-Glossary-January-1-2019-.pdf)

an energy or ancillary services transaction that crosses one or more balancing authority area boundaries.

Conclusions

Our conclusions and interpretation of government policy and the *Capacity Market Regulation* are as follows:

- The revised regulatory concept informing the *Capacity Market Regulation* is that capacity costs are to be allocated to all entities that contribute to the need for the amount of capacity procured. The Government of Alberta intentionally amended the regulatory concept for cost allocation to remove the concept that costs would be allocated to those who “gain benefit from the availability of capacity”, which would have capture XOS.

- Exports are not included in the load forecast or resource adequacy model and are prevented under ISO Rules, system operator practices and tariff/rates from having any impact on system reliability or the amount of capacity procured.

- The language of the *Capacity Market Regulation* requires the AESO to allocate capacity market costs to classes where members receive electricity from the transmission system. We submit that this excludes exports, wherein the member of the rate class is conducting an interchange transaction that crosses balancing authority boundaries, not themselves receiving electricity.

We would welcome the opportunity to discuss this letter at the AESO’s earliest convenience. I may be contacted at (403) 267-7304 or akira_yamamoto@transalta.com. Thank you for your consideration of our comments.

Yours truly,

TRANSALTA CORPORATION

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