

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: TransAlta Corporation 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.

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2. Please respond to the questions below and provide your specific comments.
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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.	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>TransAlta generally agrees that the energy pricing framework should provide clear and transparent signals for generation investment by providing a reasonable opportunity to earn a return on and of capital. We also agree that the energy market should provide the right signals for supply, demand and import/export resource responses. There is also significant reliance on these short-term price signals for informed self-commitment decisions under the energy-only market design.</p> <p><i>A key purpose of the pricing framework is to support the competitive wholesale electricity market.</i></p> <p>We also believe that the energy pricing framework should promote and rely on competition to drive market outcomes. It should also minimize administrative pricing and market intervention to the extent possible.</p>

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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>TransAlta agrees that the offer cap must allow supplier to reflect their costs including variable and fixed costs and provide a reasonable opportunity to earn a return on and of capital in their offers. We also agree that the level of the offer cap also protects consumers from high prices. It is a form of market power mitigation. However, the offer cap should not distort or mute the price signal for supply and load resource response and is not a compensatory mechanism for the historically observed inelastic demand.</p> <p><i>The offer cap has to provide a reasonable opportunity to earn a return on and of investment in the energy market.</i></p> <p>We disagree that the level of the offer cap is only required to provide “a reasonable opportunity for the marginal generating asset to recover its fixed costs over the long term”.</p> <p>No rationale competitive supplier will participate in a market that is capped at a level to only provides revenue sufficiency to recoup costs with no return. The offer cap must be set to a level that can provide appropriate long-term investment signals. This requires the offer cap to be sufficiently high to attract new investment and must allow offers to reflect suppliers’ return expectations.</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><i>The price cap should encourage actions that mitigate the escalation of supply shortfall events.</i></p> <p>TransAlta agrees that the price cap should be designed to avoid further escalation of a supply shortfall event. It is not a mechanism that should be relied on to provide for revenue sufficiency. Therefore, the purpose of the price cap is to avoid brown-outs or black-outs of the system.</p> <p>Ideally, the offer cap is high enough to trigger a response that prevents a shortage event from ever occurring. In this respect, the design of the pricing framework should obviate the use of the price cap – it should be triggered rarely if ever.</p> <p><i>Reliance on shortage pricing to cover fixed costs and return is an undesirable design.</i></p> <p>Respectfully, maintaining resource adequacy should be the only concern in shortage circumstances and the purposes should have nothing to do with limiting excessive wealth transfer or providing an administrative mechanism to allow for a portion of fixed cost recovery. Relying on shortage events to provide resources fixed cost</p>

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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><i>The current market design, left unchanged, will support investment and resource adequacy.</i></p> <p>TransAlta agrees that the current market structure and design is expected to support future generation investment and support resource adequacy. However, we are still cautious about regulatory risk given the number of open and unresolved files such as market power mitigation and pricing consultation as well as the number of new initiatives such as priced interties, mothball outage reporting, and intertie projects that the AESO has proposed. These are all contributing to a heightened sense of uncertainty. Significant changes could negatively impact investment decisions which will in turn impact future resource adequacy.</p>

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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><i>Historically the energy only has been effective in providing efficient and timely price signals.</i></p> <p>TransAlta strongly agrees that the competitive energy-only market design has been very successful at providing efficient and timely price signals. A strong factor has been the simplicity of the market design, support for the design by the government and regulatory agencies, and limited intervention of regulatory agencies. Competitive suppliers have been confident in the market's stability and have demonstrated that with a willingness to accept investment risk and add new supply.</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>Variable costs are not greater than \$999.99/MWh but lower capacity factors for thermal assets will place upward pressure on fixed costs per MWh.</i></p> <p>No, we are not aware of foreseeable situations where asset variable costs would be greater than \$999.99/MWh.</p> <p>We do foresee future outcomes where the capacity factors for thermal assets decline and increase fixed costs on a MWh basis. Furthermore, the costs to ensure firm fuel supply and/or redundancy for low capacity factor units will place additional upward pressure on fixed costs. While we do not see a near term need for a change in offer price cap to address this, we may encounter future changes that could drive variable and fixed costs high enough that the offer cap may need to be reviewed.</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>We have no concerns or further comment on the agenda items or timing of engagements at this time.</p> <p><i>The AESO should share its analysis, including information about its price forecasts.</i></p> <p>We disagree with the AESO should remove its forecasts and price modeling from the scope of the process. While we understand that the AESO is not a "price forecaster", it is clear that its price considerations are relevant and important information to make a conclusion about revenue sufficiency. We are amenable to at the very least receiving information about the distribution of the forecast pricing levels (e.g. price duration curves, frequencies and distribution in price bins) which would help us understand if it is likely that generators would respond with investment to the prices which the AESO has deemed sufficient to support new investment. For example, we may not agree that there is revenue sufficiency for investment if prices were only</p>

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9.	<p>Is the approach used for this engagement effective? If no, please provide specific feedback on how the AESO can make these sessions more constructive.</p>	<p><i>The AESO should canvass views on its questions in the stakeholder session rather than only in its written process.</i></p> <p>The engagement may be more effective if the AESO provided its questions prior to the stakeholder session to engage industry in an actual dialogue. At this point, the AESO's approach is still too largely focused on informing stakeholders – the AESO presents on its work to date and uses the session to mainly clarify questions about what it has presented.</p> <p>We see an opportunity to change this to a more collaborative approach where the sessions are used to engage in more meaningful face-to-face discussion. Limiting this type of engagement to written processes that occur after the stakeholder sessions is a lost opportunity – the written process should be a complement to rather than a substitute for dialogue.</p>
10.	<p>Please provide any other comments you have related to the pricing framework engagement.</p>	<p><i>The AESO should provide greater transparency and access to its analysis, data, and modeling work.</i></p> <p>The information provided in the presentations is a highly condensed and curated form of the AESO's analytical work. It only permits a cursory review by stakeholders.</p> <p>One of the difficulties we have with the analysis provided thus far is that we cannot determine if our issues are with the AESO's reference scenarios or with deeper issues with the AESO analytical methodology. While a disagreement about scenarios may be a point where parties can agree to disagree, fundamental flaws with the analytical methodology are areas where parties should strive to close the gaps.</p> <p>We ask that the AESO provide greater access to its analysis on its website. We request that this include more information of its modeling methodology, data, and assumptions.</p>

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Comments From: TransAlta Corporation

Date: 2020/02/28

Contact: Akira Yamamoto

Phone: 403-267-7304

Email: akira_yamamoto@transalta.com

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		high enough in very rare and extreme events.
9.	<p>Is the approach used for this engagement effective? If no, please provide specific feedback on how the AESO can make these sessions more constructive.</p>	<p><i>The AESO should canvass views on its questions in the stakeholder session rather than only in its written process.</i></p> <p>The engagement may be more effective if the AESO provided its questions prior to the stakeholder session to engage industry in an actual dialogue. At this point, the AESO's approach is still too largely focused on informing stakeholders – the AESO presents on its work to date and uses the session to mainly clarify questions about what it has presented.</p> <p>We see an opportunity to change this to a more collaborative approach where the sessions are used to engage in more meaningful face-to-face discussion. Limiting this type of engagement to written processes that occur after the stakeholder sessions is a lost opportunity – the written process should be a complement to rather than a substitute for dialogue.</p>
10.	<p>Please provide any other comments you have related to the pricing framework engagement.</p>	<p><i>The AESO should provide greater transparency and access to its analysis, data, and modeling work.</i></p> <p>The information provided in the presentations is a highly condensed and curated form of the AESO's analytical work. It only permits a cursory review by stakeholders.</p> <p>One of the difficulties we have with the analysis provided thus far is that we cannot determine if our issues are with the AESO's reference scenarios or with deeper issues with the AESO analytical methodology. While a disagreement about scenarios may be a point where parties can agree to disagree, fundamental flaws with the analytical methodology are areas where parties should strive to close the gaps.</p> <p>We ask that the AESO provide greater access to its analysis on its website. We request that this include more information of its modeling methodology, data, and assumptions.</p>

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