

Stakeholder Comment Matrix – Apr. 9, 2020

Request for feedback on pricing framework review, session 2 material



<p>Period of Comment: Apr. 9, 2020 through Apr. 23, 2020</p> <p>Comments From: TransAlta Corporation</p> <p>Date: 2020/04/23</p>	<p>Contact: [REDACTED]</p> <p>Phone: [REDACTED]</p> <p>Email: [REDACTED]</p>
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The AESO is seeking comments from stakeholders on its approach to reviewing the pricing framework, and content from session 2.

Questions	Stakeholder Comments
<p>No changes should be made to the market design at this time.</p> <p>TransAlta does not support any changes including offer cap, price floor or shortage pricing to the energy-only market design at this time.</p>	
<p>Price Cap Review</p>	
1.	<p>Do you have comments related to the AESO's analysis on the response of interties to high prices?</p> <p>We generally agree that the current price cap does not appear to impede imports.</p>
2.	<p>Do you have comments related to the AESO's analysis on the response of long lead time assets to high prices?</p> <p>Long Lead Time Asset (LLTA) do respond to high prices</p> <p>We agree that the current price cap does not appear to impede the operation of LLTAs. More specifically, high electricity prices in Alberta do provide a strong incentive for generators to self-schedule and bring LLTA assets on-line to capture those prices. We also believe that Alberta generators take the obligation to support a fair, efficient and openly competitive market very seriously and operate generation facilities in a manner to support the reliable operation of the electricity to prevent and mitigate supply adequacy events.</p>
3.	<p>The AESO provided analysis related to load that may respond to prices greater than \$1000/MWh. Do you have comments related to the approach of that analysis?</p> <p>Loads may respond to prices greater than \$1000/MWh but will vary based on differences in the value of loss load for different load groups/customer classes</p> <p>We agree that load may respond to prices greater than \$1000/MWh. However, how the loads respond is likely to vary (and may not be linear). Load response is also likely to reflect the different values of loss load that load groups/customer classes may have. For instance, the load response for a residential customer may be</p>

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		<p>triggered at lower levels than an industrial customer with a high value product or service.</p> <p>As noted by the AESO, the analysis of response to 12-CP tariff signals presents significant challenges in terms of estimating the potential for load response to prices greater than \$1000/MWh. The tariff signal is only responded to for transmission connected load given the difference in distribution rate design compared to the ISO tariff (i.e. the use of non-coincident billing determinants for the purposes of distribution rate) and as such provide no information about the potential load response at the distribution-level.</p> <p>Additionally, we agree that the tariff signal is weaker and not always correlated with high energy prices. In this respect, the analysis of response to tariff signals does not provide strong evidence of the potential load response above \$1000/MWh or a basis to make strong conclusions about the potential for load response above the price cap. It may be more informative to observe the differences in load response for other jurisdictions with higher energy prices than \$1000/MWh to estimate the change in load response for energy prices above \$1000/MWh. The differences in terms of Alberta's composition of loads and load behavior and the other jurisdictions could be identified to factor in adjustments to expected results.</p>
4.	Do you believe the amount of load the AESO indicated could respond to prices greater than \$1000/MWh is accurate? Please substantiate your response.	No. As stated in the response above, we believe that the analysis of response to tariff signals is a weak proxy for the potential for load response above the price cap.
5.	If the price cap were increased, would loads be more incented to enter into energy market hedges? What would be the benefits and drawbacks to this?	<p><i>A higher price cap will incent hedging but so would a requirement for loads to forward contract</i></p> <p>Yes, we generally agree that the higher price risk that loads are exposed the higher the incentive for loads to enter into energy market hedges. However, we do not support a change to the price cap that is solely justified to incent load customers to hedge. If the sole intent is to incent loads to hedge then it would be better (and more direct) to impose a requirement on load requirement to forward contract.</p>
6.	What approach should the AESO use when determining the appropriate price cap level? Please substantiate your response.	<p><i>A higher price should be justified on the benefits it provides to improve real time market and investment efficiency</i></p> <p>A change to the price cap should be justified by the need to send effective investment signals. More specifically, the price cap should be changed if it creates</p>

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		wasteful energy usage by customers or impedes the market from providing effective price signals to encourage investment in the types of generation needed to meet customer/system needs.
7.	<p>Do you believe market efficiencies could be gained by raising the level of the price cap? What are the tradeoffs? Please substantiate your response.</p>	<p><i>A higher price should be justified on the benefits it provides to improve real time market and investment efficiency</i></p> <p>We are not convinced that raising the level of the price cap is necessary in the near term. One only needs to consider the frequency that the system has historically or project to experience an Emergency Energy Alert event and the high forecast reserve margin to conclude that this is not an emergent issue. The infrequency of shortage pricing and the wide degree of varying complexity associated with shortage pricing mechanisms raises significant concerns that pursuing shortage pricing is purely a theoretical and academic exercise.</p> <p>Respectfully, we are concerned that a market design that is premised on relying on extreme pricing to provide investment signals and revenue sufficiency is one that is not aligned with ensuring system reliability. As an example, ERCOT has implemented a design with an Operating Reserve Demand Curve (ORDC) and experiences difficulties in meeting its planned reserve margin, low resource adequacy, and high price volatility for consumers.</p>
8.	Is there additional analysis the AESO should complete to review the efficiency of the price cap?	No comments at this time.
Price Floor Review		
9.	The AESO provided analysis related to the volume and prices of potential renewable generation market based curtailment. Do you have comments related to the volumes or price levels described in that analysis?	<p><i>Curtailment economics of REP generation is infinitely negative and imperils the proper function of an energy-only market</i></p> <p>We disagree that negative pricing aligns at all with the energy-only market construct when it is so heavily impacted by subsidized generation. As noted by the AESO, the curtailment economics for the Renewable Energy Program (REP) wind generation is unlimitedly negative given the design of the embedded indexed-REC. In this respect, implementing negative pricing is tipping the scales towards resources compensated by out-of-market payments and risks fundamentally distorting the ability of the market to send an investment signal. There is no “market based</p>

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		economic curtailment” when a subsidized resource can are enabled by the market design to effectively dump energy and drive out generation resources solely reliant on energy pricing.
10.	The AESO provided analysis related to the volume and prices of potential thermal generation market based curtailment. Do you have comments related to the volumes or price levels described in that analysis?	<p><i>Thermal generation already respond to low prices through LLTA actions</i></p> <p>The AESO’s analysis appears to entirely ignore the fact that thermal generation already responds to low and zero-dollar pricing through LLTA action. Furthermore, the duration of low-priced periods does not appear to be factored into the analysis. A sequence of multiple, consecutive low-priced periods is highly likely to trigger a response from the thermal fleet, which will see certain higher cost generation shut down.</p> <p>We expect that the responsiveness in the thermal fleet will likely improve in the future as the coal-to-gas conversions take place and the operating characteristics of the previous coal units change (e.g. lower baseload levels, faster response).</p>
11.	Historically, the AESO has largely used import curtailments to manage supply surplus conditions. Is this an adequate approach to managing future supply surplus conditions?	<p><i>Non-capacity import resources should be curtailed before capacity resources</i></p> <p>Yes, import curtailment is an adequate approach to manage future supply surplus conditions. Alberta’s energy only market provides one price signal for energy and capacity; however, certain resource such as imports (and intermittent resources) only provide energy with limited, if any, capacity benefit. In this respect, while the single price does not differentiate energy and capacity benefit, the practice of curtailing non-capacity resources (import) before capacity resources (generators with a “must offer, must comply” obligation) acknowledges the significant differences between capacity and non-capacity resources.</p>
12.	Do you believe that market efficiencies could be gained by establishing a lower price floor? What are the tradeoffs? Please substantiate your response.	<p><i>Negative pricing should not be implemented</i></p> <p>We strongly disagree that negative pricing should be introduced in Alberta. Rather than improving market efficiency, we see the introduction of negative pricing as weakening the price signal from providing a true investment signal in Alberta. More specifically, negative pricing allows for subsidized resources to compete out non-subsidized resources from the market. Moreover, those subsidized resources are largely non capacity resources (imports or intermittent renewable resources) which compromises the ability for the energy-only market price from providing adequate compensation to resources that provide capacity benefits to the system.</p>

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		<p>As noted by the AESO, price floors present a significant risk of introducing revenue sufficiency concerns. We see this as particularly threatening to the system at a time when much of the thermal fleet is undergoing or contemplating conversions from coal to gas-fired generation. The additional uncertainty to future revenues from a market change to the price floor is unhelpful and could chill investment.</p> <p>We further note that the additional unknowns as a result of the pandemic to the Alberta economy, future load growth and supply and demand conditions, as well as the potential for increases subsidization of renewable resources to stimulate the economy could result in unintended consequences if negative pricing were to be implemented. We respectfully recommend that the AESO not add to the high level of existing uncertainty by pursuing unnecessary changes to the price floor.</p>
13.	Is there additional analysis the AESO should complete to review the efficiency of the price floor?	No suggestions at this time.
Stakeholder Engagement		
14.	<p>In the next stakeholder session, the AESO plans to present alternative price cap and floor design alternatives. In the final stakeholder session the AESO would like to hear directly from stakeholders or groups of stakeholders. The format will be dependent on the number of respondents. Would you be interested in presenting individually or as part of a group on any element of the pricing framework the AESO has communicated on during this stakeholder engagement?</p> <p>If yes, please indicate which topics you may be interested in discussing. Note, industry associations notwithstanding, the AESO would prefer to have stakeholders represent themselves rather than have third parties present on behalf of stakeholders.</p>	TransAlta does not support a change to the pricing framework at this time. As such, we are not advocating for consideration of any new element of the pricing framework to make a presentation on.
15.	<p>Was the Zoom meeting approach used for this engagement effective?</p> <p>If no, please provide specific feedback on how the AESO can make these sessions more effective.</p>	No comments at this time.

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16.	Please provide any other comments you have related to the pricing framework engagement.	We commend the AESO for the adjustments that it has made to its consultation in light of the current challenging circumstances.

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