

Tariff Design for Capacity Market and Bulk and Regional Transmission Cost Allocation – Industry Update (March 13, 2019)

|                           |   |         |                |                 |                       |
|---------------------------|---|---------|----------------|-----------------|-----------------------|
| <b>Period of Comment:</b> | March 14, 2019                                      | through | April 10, 2019 | <b>Contact:</b> | Richard Stout         |
| <b>Comments From:</b>     | The Office of the Utilities Consumer Advocate (UCA) |         |                | <b>Phone:</b>   | 604.366.4184          |
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Please provide comments relating to the topics listed below in the corresponding box. For convenience, references to slides from the March 13 [Industry Update](#) where each topic was discussed are included in the table below. Please include any views about whether the content presented sufficiently addressed the topic, and provide any proposed alternative or additional approaches that should be considered.

| Slides   | Topic   | Stakeholder comments  |
|--|---|---|
| <b>Tariff Design Consultation Process</b>                        |   |   |
| 5-11   | AESO tariff design consultation approach, scope, and process. | <p>The consultation process and TDAG structure has been inclusive and appropriate. The AESO should be commended on the management of this challenging task.</p> <p>As in any zero-sum cost allocation and rate design exercise, affected parties will be unlikely to reach consensus on major aspects of the tariff design. Although time consuming, a well-run consultation process remains essential in order to identify important issues and separate them from concerns arising from misunderstandings or conflation of historical approaches of different industry structures and markets that are no longer relevant or significant. In-depth consultation using technical working groups is required in order to clarify the final tariff application and facilitate an effective hearing process focused on the most significant issues with access to well tested and broadly accepted analysis.</p> <p>The same TDAG and associated WG structures are appropriate to examine both capacity market allocation and transmission bulk/regional “wire” cost allocations considering the similarity and significance of the cost allocation issues involved. The respective filing dates of June 2019 and March 2020 are driven by legislative and regulatory schedules that allow sequencing of the necessary analysis and consultations.</p> <p>The TOR are appropriate and incorporate most generally accepted tariff development principles and objectives. The composition of the TDAG is appropriate, as is the transparency of discussions and the technical experience available to working groups.</p> |
| <b>Capacity Market Cost Allocation Tariff Development Update</b> |   |   |
| 15-20  | Requirements of <i>Capacity Market Regulation</i>             | The requirements of the Capacity Market Regulation were clearly explained and understood.   |

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| 21-22  | Resource adequacy model and unserved energy                               | The UCA shares the concerns that have been raised over the accuracy and effective resolution of the RAM. We understand it is the only tool available to the AESO estimate the distribution of unserved energy probabilities that are required by the Capacity Market Regulation for the determination of the mandatory time blocks and weightings that will reasonably recover the costs of the capacity market from all customers. We would encourage the AESO to continue reviewing the inputs of the model and make any necessary adjustments to ensure it is accurate.   |
| 22     | Distribution of expected unserved energy throughout the obligation period | As above. The distribution patterns of EUE raised questions over assumptions of generation maintenance scheduling. This has to be balanced by consideration that the RAM was not developed as a rate design tool and cannot offer the temporal resolution preferred in this context.   |
| 23-27  | Bookend scenario analysis   | The chosen bookends reasonably define the range of on-peak/mid-peak/off-peak time-block shaping possibilities.   |
| 25     | Observations on bookend analysis results                                  | The modest reduction in minimum procurement volume (-37 MW) using a narrow peak definition was unsurprising. The modest increase in procurement (+34 MW) using a wide peak definition was unexpected and may be an artifact of Generator maintenance assumptions integral to the RAM.  |
| 26     | Objectives for cost allocation rate design                                | <p>Capacity market cost allocation/rate design should be governed by the same principles as any other cost allocation/rate design.</p> <p>The additional objectives that “price signals should reduce procurement volumes in future obligation periods” and “price signals should align with those from energy market and transmission tariff” should only be introduced if there is a thorough cost and benefit analysis for all customer classes, including those that have limited ability to avoid peak load periods. The capacity volume required in any obligation period is by definition that quantity necessary to maintain the overall EUE target for a given forecast of load and generation behavior. The peak load served in that period will be subject to many economic factors including the various components of the transmission tariff itself and energy market prices.</p> <p>It is not appropriate to design capacity market cost allocations in order to provide peak price levels targeting the specific demand responses necessary to reduce the capacity volume procured from generators. At a minimum, there needs to be sufficient cost and benefit analysis to determine the impact on different customer classes. Both generation and load are free to offer capacity into the market based on prices agreed for a specified performance. The markets for energy and capacity will become entirely separate as a result of the Capacity Market Regulation, while the transmission tariff is a regulated, cost based price. It is not clear why two independently determined market prices should be “aligned” with each other or with a tariff based on allowed costs. These objectives raise concerns over limitation of competition in the capacity market, and over the fair allocation of costs to the bulk of consumers who have limited ability to avoid peak load periods. The UCA is concerned these consumers will end up paying higher costs without a significant or material benefit of reduced capacity procurement (and associated costs) in the future.</p> |
| 28-30  | Development of 400-hr on-peak time block                                  | In recognition that rate design is not a precise science and that some creativity is often required, the 400 hour on-peak time block development is a supportable proposal.  |
| 31-32  | Considerations for weights of time blocks                                 | Our understanding of the Capacity Market Regulation is for time-block weightings to be based on the distribution of EUE as the appropriate measure of the “anticipated contributions that demand for and supply of energy in hours in the time block have on the amount of capacity  |

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|   |  | <p>needed .... to meet the resource adequacy standard” as used to determine the shape of the time-blocks themselves. On this basis, the 4:1 peak to mid-peak ratio should be considered the high “book-end” and the significant distribution of EUE off-peak should not be ignored.</p> <p>For the reasons expressed above (in response to slide 26) it is not appropriate to base time block weightings on escalating the peak “price” high enough to drive a specific price response from large customers with the ability to shed load and who might otherwise offer their load-shaping ability into the capacity market.</p> |
| 33-34   | Potential rate ranges  | As explained above, peak-period to mid-period weightings higher than 4:1 and the resulting cost allocations or “prices” are unacceptable. The price should not exceed the cost of new generation.  |
| 34  | Appropriate range of weight ratios to consider   | Based on section 12(5)(c) of the Regulation the high “book-end” for weighting is 4:1   |
| 35-38   | Additional considerations for rates  | As explained above (in response to slide 26) targeting a specific demand response to capacity market cost allocations and potentially displacing offers into the capacity market are not appropriate rate design objectives.   |
| 39-43   | Terms and conditions considerations  | We are comfortable with the terms and conditions considered by the WG and remaining workplans.   |
| 40  | Regulation does not permit penalties or incentives                                       |  |
| 42  | “Gross up” of POD metered volumes to adjust for distributed generation                   |  |
| 43  | Preferred approach for deferral account true-up  |  |
| 44  | Allocation of capacity market costs to transmission losses                               |  |
| 45  | Capacity market cost allocation remaining work   | The UCA strongly supports the AESO’s plan to evaluate the impact on consumer bills. This evaluation should include analysis of how the distribution of weighted pricing affects residential and small commercial consumers. The impact assessment should include cost and benefit analysis of multiple weighting scenarios for different customer classes.   |
| <b>Update on Bulk and Regional Transmission Cost Allocation</b> |  |  |
| 48-51   | Bulk and regional transmission cost allocation current work, future work, and next steps | We are comfortable with the bulk and regional transmission cost work plan and note that the application schedule allows time for the proposed analysis and constructive discussions.   |
| <b>Additional Comments</b>                                      |  |  |

| Slides | Topic   | Stakeholder comments |
|--------|---|----------------------|
| —      | Please add any additional comments related to tariff design for allocating capacity market and bulk and regional transmission costs should be considered. |                      |