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April 15, 2021

To: Rules_Comments@AESO.ca

Re: Proposed Amended Section 103.3 of the ISO rules, Financial Security Requirements

Thank you for the invitation; we appreciate the opportunity to provide our feedback to the Alberta Electric System Operator ("AESO") as it relates to Alberta Utilities Commission ("AUC") *Rule 017, Procedures and Process for Development of ISO Rules and Filing of ISO Rules*. Noting that AESO is exploring opportunities for reducing regulatory requirements and costs for Stakeholders, we offer the following comments and proposal for discussion and your consideration.

We acknowledge that the original intent of the regulatory requirements in Section 103.3 was to play a role in mitigating the risk of financial loss and maintaining the integrity of the market. If a Pool Participant failed to pay their financial obligations, all Pool Participants bear that financial loss, which is recovered through a payment default charge allocated to all Pool Participants. We ask, over the last 20 years, has this happened?

The central policy question should always be "How will an amendment to Section 103.3 serve the public interest?" We suggest that the current Financial Security Requirements are detrimental to the health of the Retail and Self-Retail industry. A wholesale change is needed to improve the competitive nature and financial health of the industry. Today's financial risk is lopsided. If a more equitable balance is achieved, it will ultimately be in the public interest by levelling the competitive market and encouraging increased competition.

The perspective that we ask the AESO to consider when reviewing our recommendations is: With respect to the financial prudentials that are posted, are they fair and is the risk equitably balanced between all Stakeholders?

Simplistic Solution

With reference to Section 18 of the *Energy Marketing and Residential Heat Sub-Metering Regulation* (Alberta Queen's Printer), limits are placed on what an Energy Marketer can charge its customers for a security deposit. In particular, the amount of security required must be specified in advance and after a period of a year, whereby a customer has established a good record of payment, any such deposit shall be returned.

As a principle, the AESO should not impose upon Energy Marketers any more risk than they are allowed by regulation to manage through security deposits with their customers. As such, the credit requirements for a Retailer/Energy Marketer should be:

i. Increased Certainty. We suggest using an annual average pool price rather than a forecast pool price as the AESO currently does. Security to be calculated based on the monthly average aggregated load (adjusted semi-annually). This would prevent Energy Marketers (*Stakeholders: Retailers and Self-Retailers*) from being required to increase credit with little notice, which is both costly and unnecessary.
ii. Synchronize Rules. Energy Marketers are required to fund security to AESO under Section 103.3 of the ISO Rules. The Retailer finances this; however, the Retailer is limited by Section 18 of the *Energy Marketing and Residential Heat Sub-Metering Regulation* on what they can charge consumers for security. There is a mismatch within the government rules which we ask the Associate Minister of Red Tape Reduction to rectify and synchronize.
iii. Remove Security. Once an Energy Marketer has been in business for a period of greater than one year and established a record of payment within the required timelines, the requirement by AESO for Financial Security should be cancelled. This would provide an incentive for Energy Marketers to keep up a good record of prompt payment, and the removal of the credit requirements after twelve months parallels Section 18 of the *Energy Marketing and Residential Heat Sub-Metering Regulation*.

We argue that this levels the playing field with Regulated Retailers and their associated credit ratings, in addition to promoting competition.

We also note that Energy Marketers make up a relatively small proportion of the overall credit risk faced by the AESO and are prevented by legislation from managing this risk through security deposits with customers. This is an issue for the government's Red Tape Reduction initiative to review and address in its attempt to keep regulations in sync. As such, it is inappropriate for rule 103.3 to place a burden upon Energy Marketers that they cannot effectively manage.

The idea that trusted Energy Marketers are relieved of the credit requirements is also similar in spirit to the "trusted traveller" approach implemented by the AUC, where regulatory burdens are removed from trusted entities. See: Bulletin 2020-15 (auc.ab.ca).

Alternative Option

If the AESO, AUC or Red Tape Reduction is not prepared to synchronize Section 103.3 of the ISO rules, Financial Security Requirements in sync with Section 18 of the *Energy Marketing and Residential Heat Sub-Metering Regulation*, then please consider the following perspective and alternate recommendations.

During the first three and a half months of 2021, the market has been significantly disrupted. We attribute this to the termination of PPAs previously managed by the Balancing Pool, the planned conversion from coal to natural gas, and a noticeable increase in Generators' frequency of economic withholding. Generators are using this opportunity to make windfall profits at the expense of Stakeholders and end-use consumers.

2020 Average Power Pool Price:	$46.68/MWh
2021 YTD Power Pool Price:	$95.02/MWh
Percentage Increase:	+ 104 %

Today, the market is under abnormal stress. During the 2020 calendar year, Power Pool prices were spiked by Generators 719 times above the annual average price of $46.69/MWh. During the first 15 weeks of 2021 alone, Generators have spiked their prices above last year's average Pool Price point almost 1,000 times.

The AESO requirement of Energy Marketers to post added security, mapped to this upheaval in the market, is onerous and unreasonable. There is a critical need to explore and seize this opportunity to restructure a broken system. All Stakeholders, Retailers, Self-Retailers and Consumers will benefit.

Recommendations:

iv. Reduce the Financial Security Requirement threshold, posted with AESO by all Stakeholders to a maximum of the equivalent of one month's value of the actual cost of energy.
   - For clarity: Rather than basing the security calculation on the monthly wholesale AESO forecasted price, we recommend using an estimated annualized cost of energy (*prorated proportionately to reflect the supply cost of electricity from all Generators in the province*).
   - This will significantly help stabilize and remove the volatility and cash calls that Energy Marketers are facing today.
   - All Stakeholders (*Regulated Retailers, Competitive Retailers and Self-Retailers*) should be required to post a cash security payment.
   - This will level the playing field.

v. Eliminate AESO Financial Security Payments. If the business model for collecting Financial Security is restructured, it would be possible to eliminate the need for AESO Financial Security Payments within five years. Consider creating and building an AESO Sustainability Fund (*similar to the once-famous Alberta Heritage Fund*).

- In addition to the Financial Securities (*see (iv) above*), collect a general contribution of $0.25/MWh, to be paid by all Stakeholders, including Generators.
- Proceeds from the Financial Security plus the levy per MWh to be used:
  - To purchase a general insurance bond to offset, on aggregate, all risks of default by any Stakeholder. (*It is not necessary to fund 100% of all supply and retail demand. The maximum of the bond insured should be limited to potentially 10% to 15% of the provincial retail load based on the actual generation cost of supply.*)
  - To pay each Stakeholder that contributed to the fund, interest (prime plus 2%) on the money that they post as Financial Security with AESO.

In support of the above recommendations, we ask you to consider the following.

General Discussion

A Carbon-Free Society

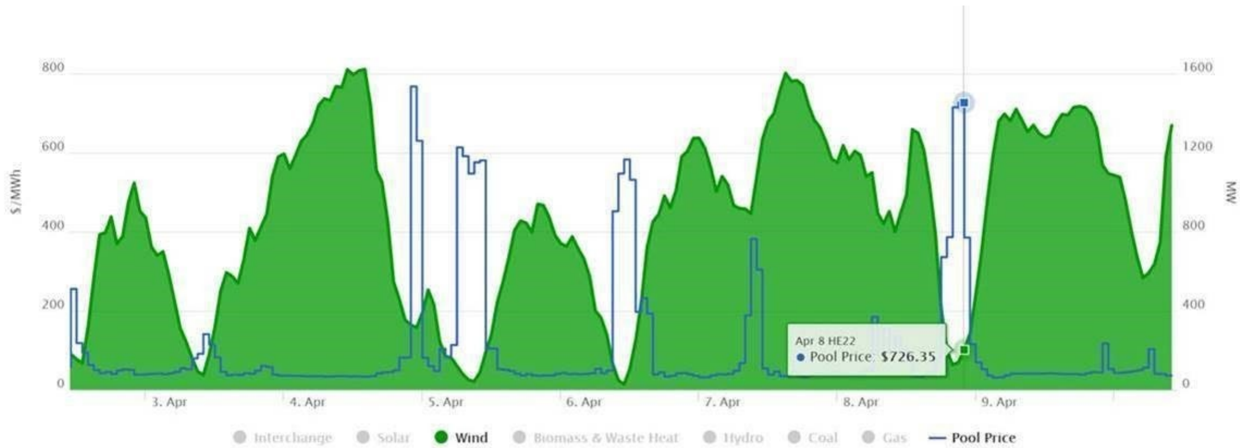
In the quest to provide lower-carbon energy sources and replace coal generation of electricity, our province will need to tap into the need for more natural gas, wind, solar, and potentially emerging resources such as storage technologies, biofuels, and hydrogen.

Alberta is committed to a goal of a carbon-free society, but there is a cost to achieve this goal. As noted, during 2021, the cost of energy has doubled. This has had a dramatic financial impact on the economics of being a Retailer in Alberta and is an added hardship on many consumers. While the wholesale price charged by generators has doubled the actual cost of generation has not increased proportionally.

We ask you to consider why the Retailer should be required to fund the security posted with AESO to protect the Generators, who in some cases have been subsidized (by upwards of $1.34 Billion). While at the same time, possibly, these same corporations are presently increasing their margins through economic withholding pricing strategies and taking advantage of the disruption in the marketplace. We have asked the MSA and DOE to report on which Generators are causing Power Pool prices to spike based on their Merit Order bidding practices.

During the transition to a lower carbon society, AESO will undoubtedly experience a disruption in the stability of the continuity of supply and simultaneously be faced with an increase in economic withholding activities exercised by some Generators.

Power Pool prices are spiking with increasing frequency. As an example, the relationship between the drop in the supply of wind generation and the spiking of power pool prices is very strong. Retailers should not be required to post security with AESO to guarantee this type of profit-taking being practiced by Generators (See image below).

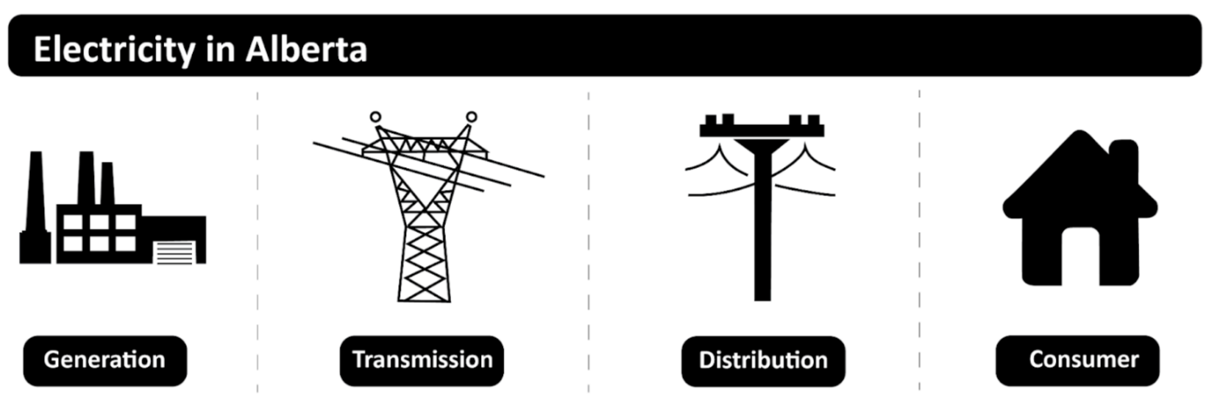


The Financial Security posted by Stakeholders with AESO should be reduced to a minimum level, calculated as a flat rate based on the annual average generation cost, not the retail price as calculated based on the volatility in the AESO Merit Order.

The Supply/Value Chain Dilemma

The impact of global energy policies has had a crippling effect on Alberta's economy. In addition to the pandemic, coupled with government carbon reduction policies, these realities have had a dramatic impact on the consumer's ability to pay their monthly utility invoices. As NSF and bad debt rates increase this will impact everyone in the value chain. It will be stretched to its breaking point.

The Retailer is financially responsible for the flow of dollars paid to AESO for generation, plus payments for transmission, distribution, and municipal and federal taxes. Why is it the Retailer's responsibility to carry the total financial burden? Should the risk not be shared proportionately?



Every aspect of the value chain (*from generation to use by consumers*) falls to the Retailer's shoulder. As such, it is important to try to reduce the burden. By doing so it will improve the health of Alberta's deregulated market structure.

This is an issue that we request the Associate Minister of Red Tape Reduction to review and consider for fairness. We argue that the financial security calculations, formulas, timelines and methodologies (*while being reviewed/pertaining to AESO*), should also be standardized and applied across every provider in the value chain in both the electricity and natural gas delivery markets.

Summary

We thank you again for the opportunity to provide feedback on Section 103.3 of the ISO Rules, Financial Security Requirements. Our recommendations are as follows:

1. Synchronize Section 103.3 of the ISO rules, Financial Security Requirements with Section 18 of the *Energy Marketing and Residential Heat Sub-Metering Regulation*,
2. Reduce the threshold to cover security prudential to equal no more than the equivalent of one month's value of the actual cost of energy, (*calculated as a flat rate based on the annual average generation cost, not the forecasted wholesale price which is the current practice by AESO*),
3. Create an AESO Sustainability Fund with the intent of eliminating, within 5 years, the need for future AESO Financial Security Payments.

As always, we welcome the opportunity to discuss these issues with you. Please feel free to reach out if you have any questions.

Thank you,

Nick Clark
Director
Utility Network & Partners Inc.
Encl.

cc:
Honourable Grant Hunter
Associate Minister of Red Tap Reduction
Members of Executive Council
Executive Branch