Wednesday, June 26, 2019

Akira Yamamoto
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TransAlta Corporation
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Dear Mr. Yamamoto

Re: Response to letter from TransAlta Corporation regarding capacity cost allocation to exports

Thank you for TransAlta Corporation's (TransAlta's) letter dated May 9, 2019, regarding the AESO's positon on allocating capacity cost to exports.

The AESO's position continues to be that exports must be allocated capacity costs. Exporters purchase electricity through the energy market and move that electricity from the transmission system in Alberta over an intertie to another jurisdiction. In the AESO's view, exporters receive electricity from the transmission system. The AESO must therefore allocate capacity market costs to exporters in accordance with section 12(4)(a) of the *Capacity Market Regulation*.

TransAlta states in its letter that the Government of Alberta did not intend capacity costs to be allocated to Rate XOS. TransAlta cites revisions included in *Results of the Conversation Stakeholder Paper No. 3 – Revised Regulatory Concepts* in support of its statement.

However, the sections of that paper quoted by TransAlta include the following:

> *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.*[1]

In the AESO's view, the Government's intent was that the principles it had previously stated were continued in its proposed regulatory construct and in the final *Capacity Market Regulation*. One of those principles was clearly stated in the Government's previous document titled *Q and A on Capacity Market Regulation*, as follows:

> *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*

[1] *Results of the Conversation Stakeholder Paper No. 3 – Revised Regulatory Concepts*, October 2018, at p. 11.

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> *intention to allocate capacity costs to all entities that contribute to the amount of capacity procured or gain benefit from the availability of capacity.*[2]

On the basis of the language provided in the *Capacity Market Regulation*, the Government's clearly stated intent that capacity costs be allocated to exports, and the Government's view that its previously stated principles were achieved in its final regulatory construct, the AESO concludes that capacity market costs must be allocated to exports.

Please contact me to further discuss this response or any additional concerns you may have.

Yours truly,

Doyle Sullivan
Director, Tariff Design

[2] *Q and A on Capacity Market Regulation*, August 2018, at p. 4.