

1 Purpose

This section relates to the following Authoritative Documents:

- Section 206.4 of the ISO rules, *Offers and Bids for the Capacity Market* (“Section 206.4”); and

2 General

This document provides additional information for ISO rule 206.4 Offers and Bids in the capacity market.

3 Offers and Bids(206.4)

The allocation of offer and bid blocks is described in rule 201.12 Capacity Market Block Allocation and establishes the offer blocks required for the implementation of this rule. The capacity market participant can offer up to 7 offer capacity blocks per asset in a base auction and up to 7 bid and 7 offer capacity blocks for each asset in all rebalancing auctions.

The minimum capacity block size for all assets is 1 MW and the offers and bids must be in 1 MW increments.

Capacity market participants will be able to indicate whether capacity blocks are flexible or inflexible. Each asset is allocated one inflexible capacity block per asset, other than for incremental capacity assets as described below. The first offer capacity block in an offer must be the lowest price capacity block and may be inflexible, all other capacity blocks must be flexible. This option enables capacity market participants to prevent assets that are under development from partial clearing and possibly requiring the capacity market participant to resize the asset. This option also allows capacity market participants to ensure that assets with a minimum stable generation level are able to ensure a minimum level of cleared capacity volume.

4 Base Auction Considerations

The AESO requires that all assets must offer in the capacity auctions. Assets are provided exemptions to the must offer requirement only after completing a delist request subsequent to ISO rule 201.15, *Delisting*.

The AESO is developing a capacity market auction system through which the capacity market participant will be required to submit offers into all auctions. When submitting bids or offers in an auction capacity market participants will be required to identify the person with offer control over the MWs being submitted in each bid or offer and whether an offer includes incremental capacity.

5 Rebalancing Auction Considerations

The ISO rules governing base auctions will apply to all rebalancing auctions with the following exceptions:

No market power mitigation

Market power mitigation measures will not apply to rebalancing auctions. Most of the supply and the demand for capacity should be cleared in the base auction; the total volume of capacity that is expected to transact in rebalancing auctions is expected to be small and the risk to price distortion is expected to be minimal.

Capacity market participant bids

Capacity market participants that have an existing capacity market obligation will be allowed to submit bids to buy back some or all of the capacity previously sold for that obligation period.

6 Incremental Capacity Considerations

Incremental capacity refers to an asset whose maximum capability is increasing by at least 1 MW but does not meet the thresholds of refurbished capacity.

Incremental capacity may have a higher cost structure than the existing capacity from the same capacity asset and as such, the AESO allows one inflexible capacity block to be provided for incremental capacity that could be priced higher than the existing capacity from the same asset. The capacity market participant will be allocated one inflexible capacity block for incremental capacity and one inflexible capacity block for the existing capacity of the asset. The capacity market participant will be able to make only one inflexible offer for either the existing or the incremental capacity. The examples below demonstrate different scenarios of how inflexible capacity block offers may be configured:

Scenario 1

Capacity Block No.	Incremental Capacity offered	Existing Capacity Offered	May Designate as Inflexible?	Rationale
1	Y	Y	Y	Can be inflexible - neither incremental or existing has a lower priced inflexible offer
2	Y	N	N	Not inflexible – incremental offered as inflexible at a lower price
3	N	Y	N	Not inflexible – existing offered as inflexible at a lower price
4	*	*	N	
5	*	*	N	
6	*	*	N	
7	*	*	N	

Scenario 2

Capacity Block No.	Incremental Capacity offered	Existing Capacity offered	May Designate as Inflexible?	Rationale
1	N	Y	Y	Can be inflexible - existing capacity does not have a lower priced inflexible offer
2	Y	Y	N	Not inflexible – existing capacity has been offered as inflexible at a lower price

Capacity Block No.	Incremental Capacity offered	Existing Capacity offered	May Designate as Inflexible?	Rationale
3	*	*	N	
4	*	*	N	
5	*	*	N	
6	*	*	N	
7	*	*	N	

Scenario 3

Capacity Block No.	Incremental Capacity offered	Existing Capacity offered	May Designate as Inflexible?	Rationale
1	Y	N	Y	Can be inflexible - incremental capacity does not have a lower priced inflexible offer
2	Y	N	N	Not inflexible – incremental capacity has been offered as inflexible at a lower price
3	Y	Y	N	Not inflexible – incremental capacity has been offered as inflexible at a lower price
4	*	*	N	
5	*	*	N	
6	*	*	N	
7	*	*	N	

Scenario 4

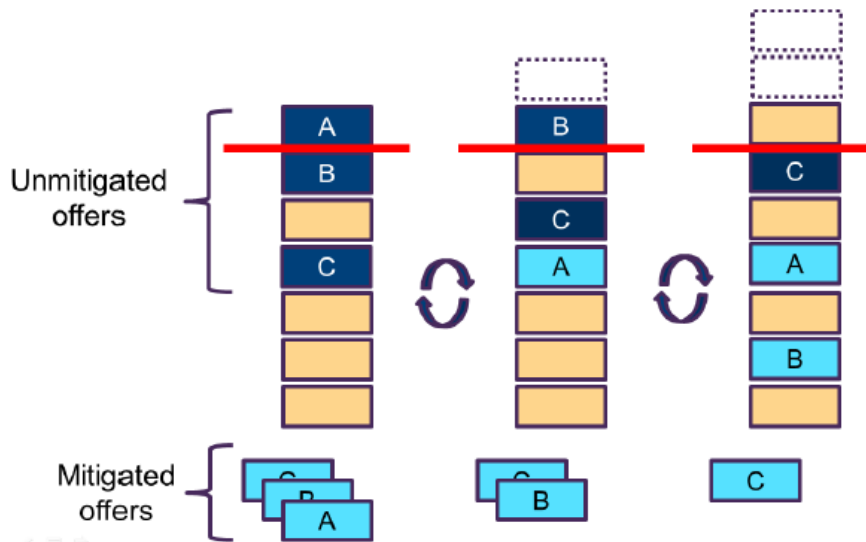
Capacity Block No.	Incremental Capacity offered	Existing Capacity offered	May Designate as Inflexible?	Rationale
1	Y	N	Y	Can be inflexible - incremental capacity does

Capacity Block No.	Incremental Capacity offered	Existing Capacity offered	May Designate as Inflexible?	Rationale
				not have a lower priced inflexible offer
2	Y	N	N	Not inflexible – incremental capacity has been offered as inflexible at a lower price
3	N	Y	Y	Can be inflexible existing capacity does not have a lower priced inflexible offer
4	*	*	N	
5	*	*	N	
6	*	*	N	
7	*	*	N	

Refurbished capacity

Auctions with refurbished capacity offers will require a multi-stage clearing process whereby the unmitigated offers for refurbished assets which do not clear are added back into the supply curve at their mitigated price and the market clearing process is run again. This process will continue until all refurbished capacity assets have cleared the market or offered on a mitigated basis. To simplify the auction clearing process, unmitigated refurbished capacity offers will be required to be single, inflexible capacity blocks. For example, in the illustration below three assets (A, B and C) submitted prequalification applications for refurbished assets and also submitted offers for the non-refurbish capacity to be considered if the refurbished capacity was not cleared. See subsection 6.1.b.

In the example below the auction clearing engine iterates twice, each time determining the unmitigated offers that do not clear and replacing them with the mitigated offers. In this example a solution is found when the unmitigated offer from asset “C” clears in the auction.



Bid content

Capacity market participants will be able to submit bids into the rebalancing auctions. This will allow market participants to optimize their capacity positions and to manage obligation period risk by reducing existing capacity market obligations.

Capacity market participants with capacity commitments during a future obligation period will be required to submit bids in rebalancing auctions at a price marginally above the price cap as described by the demand curve when either of the following two conditions exist:

- Missed Milestone: Capacity market participants developing new generation assets that have a capacity commitment will be required to buy out their obligation when they fail to meet pre-established milestones. Further information on this requirement can be found in ISO rule 206.5 Forward Period Milestone Assessment and the associated Information Document
- Uniform capacity value smaller than capacity commitment in last rebalancing auction: If an asset's capacity commitment is greater than the uniform capacity value of that asset at the time the last rebalancing auction is conducted, the capacity market participant will be required to buy out the uniform capacity value deficit in the last rebalancing auction.

Offer window extension

In the event an auction can not be completed as planned due to technical events including, an internet failure or a failure of the AESO's capacity market auction system, the AESO may extend the period during which offers will be accepted. In the event that this occurs, the AESO will advise participants through the AESO website and, if necessary, through a form of direct communication regarding the new submission period and the reason for the extension.

Revision History

Posting Date	Description of Changes
	Initial release