

Information Documents are not authoritative. Information Documents are for information purposes only and are intended to provide guidance. In the event of any discrepancy between an Information Document and any Authoritative Document(s)<sup>1</sup> in effect, the Authoritative Document(s) governs.

### 1 Purpose

This Information Document relates to the following Authoritative Document:

- Section 206.7 of the ISO rules, *Capacity Market Mitigation* (“Section 206.7”).

The purpose of this Information Document is to:

- provide a numerical example of market power screen in the capacity market;
- list the cost categories that may be included in the cost submission to support the asset-specific offer price cap request; and
- provide clarity on how the AESO will escalate the costs submitted in current dollar at the time of the submission to the dollar of the obligation period when assessing the cost submissions for asset-specific offer price cap requests.

### 2 General

In order to maintain a fair and competitive capacity market auction process, the AESO identifies those persons who have market power, namely, persons who have control of an amount of capacity that, if withheld from the capacity market, is capable of materially influencing prices. The AESO then mitigates that market power by establishing a price cap for any offers that person submits in a base auction.

### 3 Stylized Numerical Example of Market Power Screen

Assume that the demand curve developed in accordance with Section 207.3 of the ISO rules, *Shape of Demand Curve* establishes the minimum procurement volume, the inflection point, and the foot as shown in Table 1.

**Table 1: Minimum procurement volume, the inflection point and the foot established by the demand curve**

Points on the Demand Curve	Volume in UCAP	Price (\$/kW-year of UCAP)
Minimum Procurement	11,500	262.5
Inflection Point	12,000	131.25
Foot	13,500	0

The AESO performs market power screen in accordance with subsection 2 of Section 206.7 by taking the following steps:

- determine the absolute value of the slope of the demand curve above the inflection point, i.e. the *m* in subsection 2(1)(b).

$$m = |(262.5 - 131.25) / (11,500 - 12,000)| = 0.2625$$

- determine the absolute value of the slope of the demand curve below the inflection point, i.e. the *n* in subsection 2(1)(c).

$$n = |(131.25 - 0) / (12,000 - 13,500)| = 0.0875$$

<sup>1</sup> “Authoritative Documents” is the general name given by the AESO to categories of documents made by the AESO under the authority of the *Electric Utilities Act* and associated regulations, and that contain binding legal requirements for either market participants or the AESO, or both. AESO Authoritative Documents include: the ISO rules, the Alberta reliability standards, and the ISO tariff.

- (c) calculate the capacity amount under offer control above which, a person is subject to market power mitigation in the capacity market. This amount is the  $q$  in subsection 2(1)(g)(ii).

$$q = 11 \times (0.1 / (2 \times 0.2625) + 0.1 / (2.2 \times (0.0875))) \times 131.25 = 1025$$

In this example, those persons who have offer control over 1025 MW uniform capacity value are subject to market power mitigation measures, namely, the imposition of an offer price cap.

#### 4 Cost Submission Cost Categories for Asset-Specific Offer Price Cap Request

Subsection 4(2)(b) of Section 206.7 requires that a person requesting an asset-specific offer price cap submit “avoidable costs of the asset for the obligation period”.

Further to subsection 4.3 of Section 206.7, the AESO’s review of these costs is primarily to assess the avoidable nature of these costs. The AESO considers the same cost categories when assessing requests of an asset-specific offer price cap regardless of whether the asset will be delisted if it is not cleared in the capacity auction.

Where applicable, the AESO considers the following cost categories:

- (a) annual fixed operations and maintenance costs:
- (i) **Avoidable labour expenses.** Avoidable labour expenses related directly to operations and maintenance of the capacity asset. The categories of avoidable labour expenses may include:
    - (1) on-site based labour engaged in operations and maintenance activities;
    - (2) off-site based labour engaged in on-site operations and maintenance activities directly related to the capacity asset; and
    - (3) off-site based labour engaged in off-site operations and maintenance activities directly related to the capacity asset site;
  - (ii) **Avoidable administrative expenses.** The categories of avoidable administrative expenses may include:
    - (1) those incurred for employee expenses, with the exception of employee expenses included in labour expenses related directly to operations and maintenance;
    - (2) environmental fees;
    - (3) safety and operator training;
    - (4) office supplies;
    - (5) communications; and
    - (6) annual asset testing, inspection, and analysis;
  - (iii) **Avoidable fuel availability expenses.** Avoidable fuel availability expenses are operating expenses related directly to fuel availability and delivery for the capacity asset that are not normally included for recovery in energy and ancillary services market offers. The categories of avoidable fuel availability expenses may include:
    - (1) those incurred for fuel transportation;
    - (2) costs of natural gas storage;
    - (3) costs of gas balancing agreements;
    - (4) costs of gas park and loan services; and
    - (5) variable mining costs;

- (iv) **Avoidable maintenance expenses.** Avoidable maintenance expenses are maintenance expenses related directly to the capacity asset, with the exception of those included in labour expenses related directly to operations and maintenance. The categories of avoidable maintenance expenses may include:
    - (1) those incurred for chemicals and materials consumed during maintenance of the capacity asset; and
    - (2) rented maintenance equipment used to maintain the capacity asset;
  - (v) **Avoidable fixed operating expenses.** The categories of avoidable fixed operating expenses may include those incurred for:
    - (1) water treatment chemicals and lubricants;
    - (2) water, gas and station service;
    - (3) water rental;
    - (4) coal or gas royalties; and
    - (5) waste water treatment;
  - (vi) **Avoidable taxes, fees and insurance.** The categories of avoidable taxes, fees and insurance may include those incurred for:
    - (1) insurance, permits and licensing fees,
    - (2) site security and utilities for maintaining security at the site; and
    - (3) property taxes.
  - (vii) **Avoidable carrying charges.** Avoidable carrying charges may include short-term carrying charges for maintaining reasonable levels of inventories of fuel and spare parts that result from short-term operational decisions as measured by industry best-practice standards; and
  - (viii) **Avoidable asset-specific corporate level expenses.** Corporate-level expenses are those expenses directly linked to providing tangible services required for the operation or maintenance of the capacity asset to the extent that temporary or permanent delisting of the capacity asset results in a cost reduction rather than a reallocation. The categories of avoidable asset-specific corporate level expenses may include those incurred for:
    - (1) legal services; and
    - (2) regulatory and environmental compliance; and
- (b) expected costs related to performance period assessment adjustments in accordance with Section 206.8 of the ISO rules, *Obligation Period Performance Assessments*. Expected costs related to performance period assessment adjustments are based on quantitative risk assessment practices generally used by the industry to estimate risk.

## 5 Cost Escalation

The AESO escalates the cost submissions in current dollars at the time of the submission to calculate the cost in dollars of the obligation period.

### Revision History

Posting Date	Description of Changes
	Initial release