

August 8, 2018

To: Market Surveillance Administrator, Market Participants and Other Interested Parties

Re: **Alberta Electric System Operator (“AESO”) Reply to Market Participant Feedback on the Final Comprehensive Market Design**

On July 20, 2018, the AESO received written feedback regarding the final Comprehensive Market Design proposal document (“CMD”), all of which can be found on the [AESO website](#). The purpose of this letter is to summarize the feedback received and to identify opportunities for further engagement on the topics covered by the feedback.

### **Feedback Regarding Timeline and Provision of Information**

The following sections provide summaries of the feedback the AESO received relating to the capacity market design. The AESO also received more general comments requesting clarity on:

- what information the AESO will publish before and after each auction, and to what level of detail; and
- the timelines leading up to each auction, including when information would be published and how the dispute resolution process timeline would align with the auction offer submission guidelines.

The AESO intends to work with industry throughout the rule drafting process to determine what information will be released prior to and after each auction, and in what level of detail. The AESO expects that the timelines leading up to each auction will be released at the first stage of the auction process.

### **Feedback Addressed During July 26 Consultation Session**

On July 26, 2018 the AESO held a consultation session, the purpose of which was to inform stakeholders of the AESO’s approach to the development of the ISO rules for the implementation of the capacity market and to engage with stakeholders in a discussion of the following key matters that were raised in the feedback received.

#### Refurbishment Thresholds and Mechanics

The AESO received feedback from industry as to whether more detail could be provided regarding how the AESO determined the thresholds for the classification of refurbished capacity. There was a view in the feedback received that the proposed dollar threshold for the classification of refurbished capacity (greater than \$200 per kW) is too high to capture coal to gas conversions. It was suggested that a new classification category should be established for coal to gas conversions, fuel switching or other unique conversions.

Feedback was also received regarding the need for the two stage clearing mechanism for refurbished capacity. In addition, clarity was requested on the application of the two stage clearing mechanism and whether the mechanism will be applied if the company decides not to invest in the refurbishment.

The AESO intends to engage further with stakeholders on the topic of refurbished capacity at the August 15, 2018 [consultation session](#) for the Set 1 draft ISO rules for the implementation of the capacity market (“Set 1 ISO rules”).

### Temporarily Delisted Assets Return to Service Conditions

The AESO received feedback from industry questioning whether the AESO will be able to direct units that have temporarily delisted back into service, and if so, what the associated timelines and notification requirements would be, and whether compensation would be provided. Some industry members suggested that ending a temporary delist should be at the unit owner's discretion.

The AESO will be engaging further with stakeholders on the topic of delisting at the September 2018 consultation session for the Set 2 draft ISO rules for the implementation of the capacity market ("Set 2 ISO rules").

### UCAP Determination for Self-supply Assets

The AESO received feedback from industry regarding the determination of UCAP for self-supply assets. Generally, industry members requested additional consultation on the approach, given that it is complex and was first discussed in the final version of the CMD. Industry members also requested clarification on whether the regression methodology will be updated prior to each rebalancing auction. In addition, questions were received regarding how changes to onsite load or generation will be incorporated into UCAP determinations and whether ancillary services volumes should be included as an independent variable similar to metered volumes.

The AESO acknowledges the UCAP determination approach for self-supply sites requires further discussion and will be engaging with stakeholders on this topic at the September 2018 consultation session for the Set 2 ISO rules.

### UCAP Refinement Process

The AESO received feedback from industry seeking clarification on the timelines associated with the UCAP refinement process, which must take place prior to the auction period. Feedback indicated that industry members believe the refinement criteria proposed in the CMD were lacking and requested the inclusion of criteria such as major changes to an asset, or significant historical outages that are unlikely to occur in the future, both of which may distort an asset's UCAP so that it does not reflect the asset's future contribution to reliability.

The AESO will be engaging further with stakeholders on the UCAP refinement process at the September 2018 consultation session for the Set 2 ISO rules.

### Capacity Market Power Mitigation – Asset Specific Offer Caps

Industry feedback received indicated that the forward market may not be an accurate reflection of actual realized energy revenues. Therefore, the energy and ancillary service offset ("EAS offset") should be an asset specific offset based on an owner's expected earnings. Further, it was suggested that previously invested capital should be included in the offer cap and that the AESO should build in sufficient time during the auction schedule to review costs in this regard that may be contentious.

The AESO will be engaging further with stakeholders on the topic of capacity market power monitoring and mitigation at the September 2018 consultation session for the Set 2 ISO rules.

### Asset Specific Reference Price Determination

Industry provided feedback regarding the AESO's proposed approach to the asset specific reference price determination for non-thermal, energy-limited assets. Industry requested additional information on the products and volumes contemplated by the approach, in addition to the voluntary nature of ancillary services participation and the applicability of the asset specific reference price determination to other asset types.

The AESO will be engaging further with stakeholders on the topic of asset specific reference prices determination at the September 2018 consultation session for the Set 2 ISO rules.

### **Additional Areas of Industry Feedback**

Industry also provided feedback in the following areas, which were not specifically addressed at the July 26, 2018 consultation session:

- Questions regarding how assets that participate in the Renewable Energy Program or other subsidized assets may participate in the capacity market;
- Comments that the penalty framework is too onerous;
- Questions about the alignment between the cost allocation methodology and the UCAP determination methodology;
- Comments that further refinements to CONE and WACC determination are required;
- Questions about the approach to and timelines for the refinement and dispute resolution processes; and
- Comments that the 80% net CONE offer cap is both too high and too low.

The AESO expects to engage further with stakeholders on these topics as necessary during the August and September 2018 consultation sessions for the Set 1, 2 and 3 ISO rules. The AESO intends to consult with industry on the topic of subsidized assets as identified in the capacity market road map.

The AESO is open to discussing other feedback received which does not relate to the specific topics noted in this letter during the consultation sessions for the Set 1, 2 and 3 ISO rules, as applicable.

Sincerely,

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