

October 30, 2018

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

**Re: Alberta Electric System Operator (“AESO”) Stakeholder Feedback Summary on Set 2 and 3 draft ISO Rules and Definitions for the Implementation of the Capacity Market**

On September 28, 2018, the AESO received written comments regarding the proposed new and amended Set 2 and Set 3 draft ISO rules for the implementation of the capacity market (“Set 2 and 3 rules”). In addition, on October 9, 2018 the AESO received written comments regarding the proposed new and amended Set 1, 2 and 3 terms and definitions (“definitions”) for the implementation of the capacity market. All written comments can be found on the [AESO website](#).

The purpose of this letter is to summarize the feedback received and to identify the sections of the draft ISO rules to which such feedback relates. The AESO has summarized the comments received and has used Market Participant wording and phrasing similar to the comments received where possible.

At this time, the AESO will not be considering or responding to alternative options proposed in respect of design elements referenced in the final Capacity Market Design. The AESO will however review and consider all comments regarding details related to the implementation of the Capacity Market Design, and the manner in which the Capacity Market Design has been translated into ISO rules and the associated terms and definitions.

The AESO’s consideration of the feedback received to date has been reflected where appropriate in the Capacity Market Rules and Definitions that were posted on October 22, 2018. In the AESO’s [October 22, 2018 Letter of Notice](#), the AESO requested stakeholder comments on the Capacity Market Rules and Definitions no later than November 14, 2018. The AESO expects to publish replies to comments received by November 29, 2018.

Feedback received in relation to the Set 2 and 3 rules has been categorized into the following high level themes, a summary of which is provided below.

### **Clarification on Random Clearing Process**

A number of stakeholders commented that the AESO should provide further clarity regarding the random clearing process for equivalent price blocks. Stakeholders also provided recommendations and alternatives for the process of clearing equivalent price blocks.

### **Transmission Limitations**

Similar to comments received regarding the Set 1 draft ISO rules for the implementation of the capacity market, stakeholders reiterated that: (1) uplift payments are not aligned with an unconstrained transmission system; (2) all participants should receive the same clearing price, and (3) the AESO should provide more detail on how transmission limitations will be identified.

### **Offer and Bid Design Changes**

Stakeholders recommended changes to the requirement to repurchase a capacity commitment in a rebalancing auction if a capacity market participant misses a milestone, or experiences a reduction in uniform capacity value.

### **Clarification on Availability Volume**

Several stakeholders requested that the AESO reconsider the determination of availability volume as written, since it may not accurately reflect the asset's performance. For example, stakeholders commented that consideration should be given to providing ancillary services, or that available capabilities should be adjusted as a result of an acceptable operational reason.

### **Asset-specific Penalty Rate**

Stakeholders proposed that the AESO should reconsider how penalty rates are determined. Some stakeholders recommended the AESO use the same penalty rate for all assets instead of an asset-specific penalty rate and that a default penalty rate is not required.

### **Milestone Design ID vs AD**

Multiple stakeholders requested that the AESO include the critical milestones and associated timelines in the rule instead of the information document, or alternatively, ensure that the critical milestones are consulted on with stakeholders and appropriately approved in a regulatory process.

### **Limitations on Volume Reallocation and Asset Substitution**

Stakeholders commented that there should be no restrictions on which assets can participate in asset substitution or volume reallocation, and that asset substitution and volume reallocation should also apply to availability assessments (not just delivery assessments).

### **Clarification on Financial Settlement**

Several stakeholders commented that the capacity market financial settlement rule is confusing and requested clarification on multiple provisions.

### **More Transparency around Reconsideration Process**

Stakeholders commented that the request for reconsideration rule is too vague in its timelines and requirements.

### **Joint Ventures and Offer Control Information**

A number of stakeholders requested clarity on how joint ventures will be handled in the capacity offer submission system.

### **Determination of Acceptable Avoidable Costs for Economic Delisting**

Stakeholders requested additional clarity regarding how and what the AESO determines to be acceptable avoidable costs for temporary delisting for economic reasons.

### **Delisting**

Stakeholders would like to see the requirements for delisting removed or relaxed, and made the following suggestions:

- temporary delists for economic reasons should be permitted in the base and rebalancing auctions;

- a temporary economic delist should be permitted to participate in the energy and ancillary services markets for up to 275 days;
- the AESO should allow for exemptions to the two years economic delist restriction;
- the 2-year restriction is inefficient and serves no useful purpose; and
- the AESO should set the derate or outage period for a temporary physical delist at 90 days rather than 150 days.

Stakeholders also recommended that information regarding delists be made publically available.

### **Inputs to the EAS Offset for Assets**

Stakeholders provided feedback on the calculation of the EAS offset for assets and recommendations on the inputs into EAS offsets, including:

- the EAS offset should be calculated net of taxes;
- the energy market trading charge should be escalated by inflation given the high likelihood that the figure will be periodically updated before the delivery year;
- the definition of the forward price is problematic;
- the EAS offset should be based on the owner's views of forecasted energy and ancillary services revenue, not on a misguided forward pricing-based calculation performed by the AESO; and
- the proposed use of forwards to determine the EAS Offset for any asset is flawed and should be removed.

### **Changes in Self-supply Configurations**

Stakeholders do not agree that self-suppliers should be limited to changing their status between net and gross participation after a minimum of four years has passed.

### **Linear Regression for Self-supply Configurations**

Stakeholders voiced concerns with the linear regression approach for determining the net uniform capacity value for self-suppliers. Specifically, stakeholders are of the view that the approach:

- is too narrowly focused on the energy dispatched from the site;
- discounts the capacity that would be available from the City of Medicine Hat; and
- creates a sampling risk due to the disconnect between the actual and deemed performance of the site in a given hour.

### **Applicability of Uniform Capacity Value Methodologies**

Stakeholders expressed concern that the methodologies for determining the uniform capacity value of an asset would not be appropriate in all situations, such as:

- class averages may not always be appropriate;

- an asset providing firm consumption level should not require testing in years which it was dispatched down to its firm consumption level;
- it is unclear how the the uniform capacity value range will be calculated for the City of Medicine Hat; and
- it is unclear how the uniform capacity value of an aggregated portfolio will be calculated.

### Gross Minimum Procurement Volumes

Several stakeholders are concerned that the gross minimum procurement volumes for the 2021/2022 and 2022/2023 obligation periods will result in the over procurement of capacity.

### Liquidity in Forward Prices

Stakeholders commented that the methodology for calculating the energy offset, used in the determination of net-CONE, should account for the level of liquidity in the forward market.

The following is a list of stakeholders who had comments relating to the themes above.

Comment Theme	Stakeholders
Clarification on Random Clearing Process	ATCO Electricity Generation Capital Power Corporation The Cogeneration Working Group TransAlta Corporation TransCanada Energy Ltd.
Transmission Limitations	Capital Power Corporation The Cogeneration Working Group TransAlta Corporation TransCanada Energy Ltd. Utilities Consumer Advocate
Offer and Bid Design Changes	ATCO Electricity Generation Capital Power Corporation The City of Medicine Hat The Cogeneration Working Group TransAlta Corporation TransCanada Energy Ltd.
Clarification on Availability Volume	Alberta Direct Connect Alberta Newsprint Company

Comment Theme	Stakeholders
	Capital Power Corporation The Cogeneration Working Group ENMAX Corporation Solas Energy Consulting on behalf of the Renewable Energy Coalition TransAlta Corporation TransCanada Energy Ltd.
Asset-specific Penalty Rate	Capital Power Corporation TransAlta Corporation Solas Energy Consulting on behalf of the Renewable Energy Coalition
Milestone Design – ID vs AD	ATCO Electricity Generation Capital Power Corporation The Cogeneration Working Group TransAlta Corporation TransCanada Energy Ltd.
Limitations on Volume Reallocation and Asset Substitution	The Cogeneration Working Group TransAlta Corporation TransCanada Energy Ltd.
Clarification on Financial Settlement	ATCO Electricity Generation The Cogeneration Working Group ENMAX Corporation Industrial Power Consumers Association of Alberta The Market Surveillance Administrator Solas Energy Consulting on behalf of the Renewable Energy Coalition TransAlta Corporation
More Transparency around Reconsideration Process	ATCO Electricity Generation Capital Power Corporation ENMAX Corporation Industrial Power Consumers Association of Alberta

Comment Theme	Stakeholders
	<p>The Market Surveillance Administrator</p> <p>TransAlta Corporation</p>
Joint Ventures and Offer Control Information	<p>Capital Power Corporation</p> <p>TransAlta Corporation</p>
Determination of Acceptable Avoidable Costs for Economic Delisting	<p>ATCO Electricity Generation</p> <p>Capital Power Corporation</p> <p>ENMAX Corporation</p> <p>Industrial Power Consumers Association of Alberta</p> <p>TransAlta Corporation</p>
Delisting	<p>ATCO Electricity Generation</p> <p>The Cogeneration Working Group</p> <p>ENMAX Corporation</p> <p>Industrial Power Consumers Association of Alberta</p> <p>The Market Surveillance Administrator</p> <p>TransAlta Corporation</p> <p>TransCanada Energy Ltd.</p> <p>Utilities Consumer Advocate</p>
Inputs to EAS Offset for Assets	<p>TransAlta Corporation</p> <p>The Market Surveillance Administrator</p>
Changes in Self-supply Configurations	<p>Alberta Newsprint Company</p> <p>The Cogeneration Working Group</p> <p>Industrial Power Consumers Association of Alberta</p> <p>TransCanada Energy Ltd.</p>
Linear Regression for Self-supply Configurations	<p>Alberta Direct Connect</p> <p>The City of Medicine Hat</p> <p>The Cogeneration Working Group</p> <p>Industrial Power Consumers Association of Alberta</p> <p>TransCanada Energy Ltd.</p>
Applicability of Uniform Capacity Value Methodologies	<p>Alberta Direct Connect</p> <p>Alberta Newsprint Company</p>

Comment Theme	Stakeholders
	The City of Medicine Hat The Cogeneration Working Group EnerNOC Industrial Power Consumers Association of Alberta Solas Energy Consulting on behalf of the Renewable Energy Coalition TransCanada Energy Ltd.
Gross Minimum Procurement Volumes	ENMAX Corporation Industrial Power Consumers Association of Alberta Solas Energy Consulting on behalf of the Renewable Energy Coalition Utilities Consumer Advocate
Liquidity in Forward Prices	The Cogeneration Working Group Capital Power Corporation ENMAX Corporation TransAlta Corporation

The AESO thanks all stakeholders for their feedback on the Set 2 and 3 rules.

Sincerely,

Pauline McLean  
 Direct, Legal & Regulatory Affairs and Associate General Counsel