Stakeholder Comments and AESO Replies Matrix

Proposed New Section 206.5 of the ISO Rules, *Forward Period Milestone Assessment*

Date of Request for Comment:	January 3, 2019		
Period of Comment:	January 3, 2019	through	January 18, 2019

Stakeholder Comments and/or Proposed Alternative Rule Wording	AESO Replies
Applicability **Section 1**	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation No comments at this time.	
Milestone Assessment **Subsection 2(1)**	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation No comments at this time.	

Stakeholder Comments and/or Proposed Alternative Rule Wording	AESO Replies
Subsection 2(2)	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation ***The minimum timeline that AESO would perform its milestone assessments should be specified in the subsection 2(2).*** TransAlta has previously raised concerns about ISO Rules that contain references to with timelines that are only contained in a non-authoritative document. Our recommendations have been rejected in all instances in which we have proposed changes. We prefer that these timelines be stated in the ISO Rule rather than cite a document that can be changed at any time without the rigour of regulatory process. For this particular rule, rather than cite a timeline that is prescribed in the Capacity Market Auction Guidelines, the AESO should state the minimum timeframe in which the AESO would perform its assessment.	See the AESO's November 29, 2018 reply to the Cogeneration Working Group on subsection 2(1): *The AESO expects the timelines for milestones to be similar for similar projects in the capacity market auctions. The timelines are posted on AESO website so that the AESO may work with market participants in order to determine appropriate timelines for unique projects and technologies.* *To provide further certainty, the AESO intends to revise proposed Section 206.5 to require the AESO to publish the milestone timelines prior to each base auction and use the established timelines in the milestone assessments for the rebalancing auctions associated with the same obligation period.*
Subsection 2(3)	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation See comments to subsection 3(3) below.	
Unique Asset Classes **Subsection 3(1)**	
Capital Power Corporation See Capital Power's comments below.	

Stakeholder Comments and/or Proposed Alternative Rule Wording	AESO Replies
<u>TransAlta Corporation</u> ***Subsection 3(1) should clarify that the milestones would be applicable to all assets in the class or if they are asset-specific.*** TransAlta understands that there may be circumstances in which an asset that is not contemplated in the asset classes is proposed. We also agree with the AESO's response filed to Section 206.5 that states: "A fair and transparent evaluation process contributes to a fair, efficient and openly competitive market. As such, equivalent projects are evaluated in the same manner against the same timelines. Transparency requires that there is clear visibility to the milestone requirements. Clear timelines and requirements ensure that the AESO will not employ subjectivity in making its determination as to whether a project has achieved its required milestones." We are unclear how the AESO intends to ensure that the critical milestones and associated target completion dates for the asset are evaluated in the same manner against the same timelines as other assets if those determinations are asset specific. We are also unclear how the AESO will ensure that transparency is provided to the market about the milestones assigned to those assets.	As the asset classes set out in the Information Document are expected to be broad and the milestones generous, the AESO does not expect to assign asset-specific milestones except in rare cases. The same milestones assessment process will be used to evaluate all assets, regardless of whether the milestones are class-specific or asset-specific. For reliability purposes, the AESO requires that a new asset is reasonably capable of achieving an in-service date that aligns with the start of the procurement's obligation period. Where a new asset is assigned asset-specific milestones and it is likely that additional projects of the same type will be developed, the AESO will establish class-specific milestones and target completion dates for this type of asset and publish them in the Information Document. Where a new asset is assigned asset-specific milestones and it is not likely that additional projects of the same type will be developed, the AESO will publish the asset-specific in the Information Document after the associated asset has cleared the base auction. The AESO has added new subsection 2(4) to address this requirement.
Subsection 3(2)	
<u>Capital Power Corporation</u> See Capital Power's comments below.	
<u>TransAlta Corporation</u> ***The AESO should notify all capacity market participants about proposed critical milestones or any changes to critical milestones.*** This requirement should clarify whether the notification is only to capacity market participants of associated with a project or to all capacity market participants. TransAlta recommends that all capacity market participants are notified of the critical milestones that apply to all asset classes.	The AESO intends to publish all class-specific and asset-specific milestones and target completion dates, as well as any changes to milestones and target completion dates, in the Information Document. The AESO has added new subsection 2(4) to address this requirement.

Stakeholder Comments and/or Proposed Alternative Rule Wording	AESO Replies
Subsection 3(3)	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation ***The AESO should permit capacity market participants to apply to vary the critical milestones and target completion dates or otherwise engage in a consultation on the critical milestones and target completion dates to ensure that they are reasonable.*** The AESO should allow a capacity market participant to apply to have the AESO vary the critical milestones and target completion dates for an asset. TransAlta highlighted our concerns about unrealistic estimates of the target completion dates and selection of critical milestones that were not addressed. Our concerns included the following: • The proposed regulatory permitting and licensing target completion date for the coal-to-gas conversion is grossly overstated at 26 months. The regulatory permits for a coal-to-gas conversion are treated as category 2 applications with a 40-60 day approval timeframe. The target completion date should apply 3 months as a more reflective timeframe. Moreover, with this short regulatory permitting and licensing timeline, it is questionable whether this milestone would be on the critical path or as the first milestone. • The target completion dates for a natural gas combined cycle and cogeneration plant were proposed to be the same but in practice these can be very different. The target completion dates proposed reflect the longer lead time required to complete a large and complex project. By applying these target completion times to a smaller project, there is a significant risk that the project will be evaluated to not be meeting its milestones and could be required to buy back a capacity obligation in the rebalancing auction unnecessarily. • The target completion times for regulatory permitting and licensing and full notice to proceed for a natural gas simple cycle were too long as proposed. Overstating the time require to complete these steps will create a significant risk and could trigger unnecessary buy backs. The AESO rejected our request to further consult on the critical milestones or target completion dates. The AESO further stated that the application of 8-month and 5-month window in assessing achievement of the milestone address our concern. We respectfully disagree that the application of these windows will	As noted above, the AESO expects the timelines for milestones to be similar for similar projects. Flexibility in achieving the target completion dates (i.e. 8-month and 5-month windows) is provided in order to accommodate departures from the milestone target timelines that may arise from delays in the asset development schedules. The AESO considers that this flexibility provides adequate opportunity for projects to manage within the reasonable timelines published on the AESO website. Where a project plan does not align with the class-specific target completion dates (such as brownfield development, alternative technologies or secondary market equipment), Section 206.1 allows for the development of asset-specific milestones. As noted above, the AESO expects these cases to be rare.

Stakeholder Comments and/or Proposed Alternative Rule Wording	AESO Replies
fully address our concerns. As noted above, some of the target completions date are overstated by more than 8-months and the milestones selected may not be critical path items such that the sequence is incorrect. In the absence of a process to address these issues, we recommend that a process be implemented that allows a capacity market participant to submit a variance to the milestones and target completion dates be implemented.	
Subsection 3(4)	
<u>Capital Power Corporation</u> See Capital Power's comments below.	
<u>TransAlta Corporation</u> No comments at this time.	
Outcome of Milestone Assessment **Section 4**	
<u>Capital Power Corporation</u> See Capital Power's comments below.	
<u>TransAlta Corporation</u> ***The requirement to buy back a capacity commitment should be proportional to the number of months that a project is delayed in meeting the start of the obligation period.*** The requirement for a capacity market to buy back by submitting a bid for its capacity commitment is too severe. For example, a capacity market participant should not be required to buy back its entire capacity commitment for missing a milestone which delays its in-service date by a few months (e.g. 5 months). In such circumstances, the capacity market participant should only have to buy back a portion of its capacity commitment or be allowed to enter into an asset substitution to cover off its capacity commitment for the period of delay.	To ensure that procured capacity provides the intended reliability benefit, the AESO must be confident that new assets will be operational for the obligation period. Failure to meet the milestone requirements is taken by the AESO as evidence that a new asset has a high likelihood of not being operational for a substantial portion, or potentially all, of the relevant obligation period. Further delays in project development are possible after the milestone assessment, which may mean that volumes required to be bought back are underestimated. The AESO is of the view that it is reasonable to require that a capacity market participant buy back their capacity commitment in circumstances where critical milestones have not been met.

Stakeholder Comments and/or Proposed Alternative Rule Wording	AESO Replies
Milestone Assessment for Load Assets **Subsection 5(1)**	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation Generation assets should also be considered to meet its capacity commitment if it is able to achieve at minimum 75% of the capacity commitment. TransAlta raised concerns about the fairness and level playing field between generators and load given that the standard applied to loads only appears to require 75% completion. In response, the AESO stated: "Load assets will be required to provide evidence that they have met the critical milestone of delivering at minimum 75% of the capacity commitment. This represents a significant proportion of the aggregated capacity commitment and recognizes the incremental nature of the procurement of load assets. Generally, load assets represent capacity that is already installed but has not been committed to provide capacity. These installed load assets are required to be committed under contract for 75% of their load capacity prior to the delivery period. New load assets differ from new generation supply assets, which are also subject to milestone assessments, in that new load assets with no previous consumption will be required to achieve commercial operation and be committed under contract for 75% of their load capacity prior to the delivery period." The existence of the load asset to contract with does not provide any real certainty that an aggregator will be successful in signing the 100% of the capacity that they sell into the market. In this regard, if the AESO is proposing to treat 75% capacity commitment as if it is 100% completion for load assets it should afford the same treatment to all capacity resources. We believe that the system resource adequacy objective and fairness can be achieved by requiring generators to only buy back a proportionate amount of their capacity commitment as proposed in our comment above. Otherwise, fairness in the standard applied to load and generators is achieved by treating a generator as achieving its capacity commitment with no requirement to buyback if it is on-line for 9-months (75% of 12 months) of an obligation period.	With respect to the achievement of energization and commercial operations, load assets cannot be assessed in the same way as generation assets. The demonstration of 75% of capacity committed milestone is intended to provide a meaningful demonstration to the AESO, of a load asset's significant progress towards having its capacity available by the obligation period. The following corrections (in bold) should be made to the paragraph cited in TransAlta's comment: Load assets will be required to provide evidence that they have met the critical milestone of delivering at minimum 75% of the capacity commitment, prior to the **obligation period.** This represents a significant proportion of the aggregated capacity commitment and recognizes the incremental nature of the procurement of load assets. Generally, load assets represent capacity that is already installed but has not been committed to provide capacity. These installed load assets are required to be committed under contract for 75% of their load capacity prior to the **obligation period.** New load assets differ from new generation supply assets, which are also subject to milestone assessments, in that new load assets with no previous consumption will be required to achieve commercial operation and be committed under contract for 75% of their load capacity prior to the **obligation period.**

Stakeholder Comments and/or Proposed Alternative Rule Wording	AESO Replies
Subsection 5(2)	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation No comments at this time.	
Subsection 5(3)	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation No comments at this time.	
Subsection 5(4)	
Capital Power Corporation See Capital Power's comments below.	
TransAlta Corporation See comments to subsection 4 above.	

Please provide any additional comments on proposed new ISO Rule – Section 206.5, Forward Period Milestone Assessment arising from the two documents referenced in the Letter of Notice

Capital Power Corporation

Notwithstanding Sargent & Lundy's ("S&L") report, "New Asset Development Milestone Schedules," Capital Power remains concerned that the AESO's overall approach for assessing critical milestones for new, incremental, and refurbished capacity with a capacity commitment is too rigid.

In its Set 2 rule comments, Capital Power proposed changes to the AESO with respect to Section 206.5 that would have made establishment of development millstones incumbent on capacity resources (as opposed to the AESO) and would have increased flexibility for developers with respect to assessment and potential revision of milestones. Capital Power reiterated the need for greater flexibly with respect to establishing and assessing development milestones in its comments on the final draft rules submitted on November 14, 2018. Capital Power recognizes the AESO's replies to its comments and the comments of others on the Section 206.5, however still believes that it should be incumbent upon capacity market participants (i.e. developers) to specify target completion dates for specified critical milestones and capacity market participants should have the flexibility to revise these dates throughout the forward period subject to the ISO's satisfaction. It should not be incumbent upon the ISO to specify "binding" target completion dates as currently proposed. The target completion dates for critical milestones posted on the AESO website should be non-binding date ranges (not maximums) and these ranges should be used only as reference for developers.

Response: A fair and transparent evaluation process contributes to a fair, efficient and openly competitive market. As such, equivalent projects are evaluated in the same manner against the same timelines. Transparency requires that there is clear visibility of the milestone requirements. Clear timelines and requirements will limit subjectivity in the determination of whether a project has achieved its required milestones.

TransAlta Corporation

TransAlta notes that Sargent & Lundy Consulting's (S&L) report, New Asset Development Milestone Schedules, does not include the same milestones as Section 206.5: Forward Period Milestone Assessment such as regulatory permitting and licensing or full notice to proceed. In this respect, it does not provide a view of whether the AESO's proposed milestones and target completion dates are reasonable or consistent with S&L views. Moreover, we not clear what S&L's opinions are based upon or the methodology that they used to ensure that their estimates and schedules adequately reflect projects that are within that class. We do not agree that it is reasonable to assume that the schedules presented in the report are representative of all projects in that asset class such that there would be not expected variance in the sequence of activities or schedules – we believe that a such a study would identify a range of potential timelines and/or sequence of activities. We ask that more information be provided about S&L methodology and the sources of the information that is presented in the report.

Response: As noted in the January 3, 2019 Letter of Notice, while the AESO commissioned and considered the Sargent and Lundy report in the course of designing the Alberta capacity market, in light of the overall market design, AESO personnel exercised their own judgment to establish the final design elements to be incorporated into Section 206.5. The AESO leveraged the Sargent & Lundy report when determining target completion dates, but included reasonable amounts of additional time, where required, for projects to achieve permit and license.

Please provide any comments you have on other Capacity Market Rules arising from the two documents referenced in the Letter of Notice. Include a description how the two documents relate to these other Capacity Market Rules.

Capital Power Corporation Capital Power has no further comments at this time.