Comprehensive Market Design Stakeholder Comment Matrix
Design Working Group *FINAL*

The AESO is requesting written feedback from the Capacity Market Design Working Group (DWG) members about the content of the first draft Comprehensive Market Design (CMD 1) and about the working group session in which CMD 1 was discussed. This draft comment matrix is provided in advance to help working group members prepare for their upcoming session. Following the working group session, the AESO will post a **final comment matrix** one (1) day after the session. This final comment matrix should be completed by working group members within four (4) business days. The final feedback matrix is intended for working group members to provide written feedback about CMD 1 or the content of their working group session that is within the scope of their working group.

The AESO will post all comment matrices and any other feedback received from working group members on www.aeso.ca and on the Capacity Market SharePoint site. **Please note that the names of the parties submitting each completed comment matrix will be included in this posting.** The AESO does not intend to respond to individual submissions.

If you have any questions about this comment matrix, please email capacitymarket@aeso.ca

Name: Surendra Singh **Organization:** Alberta News Print Company (ANC)

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CMD Key Design Questions	Comments and / or Recommendations
1. UCAP: Can you support using Availability factor for dispatchable resources? Does the approach meet the intent of a resource neutral approach to capacity volume that reflects the deliverability of energy during periods of tight system conditions?	ANC is supportive of the availability factor UCAP methodology for thermal resources. However, ANC notes there are significant issues with the UCAP calculation for capacity committed demand response. These issues are so significant that if they are not fixed, the AESO should not expect any participation of load on the supply side of the capacity market. The down-to demand response UCAP calculation will calculate the average load during the 100 tightest supply cushion hours of the last year to establish the upper bound and a capacity committed demand response will only be able to sell the difference between that amount and the amount they are willing to go down-to into the capacity market. Under this design, if load has been price responsive in the past, then measuring load during the 100 tightest supply cushion hours will show load at the level that the load would likely want to provide as their “down-to.” Further, given the UCAP adjusts annually, if a DR load participates in the capacity market and then meets its obligations, it will not be able to participate in the next year as it won’t have any UCAP left to sell. (I.e. the average across the 100 tightest hours will equal the level of “down-to” that it is willing to commit to.) The UCAP level needs to reflect the fact that load came down from a higher level. This capacity committed demand response UCAP formula is akin to determining generation levels in the 100 tightest hours and instead of giving them that as a UCAP to be sold (the current proposal) only allowing them to sell generation that can be provided above that level (I.e. an “up from” generator methodology would be the same as the “down-to” load methodology). This is unfair and inconsistent. The requirement to be dispatchable in both directions (i.e. dispatch down to and then back up as required) is arbitrary and unnecessary for a capacity product. The AESO requires certainty that a committed load will go down but certainty that it will come back online is clearly not required to ensure resource adequacy. Aside from an arbitrary desire to create false equivalency between generation resources and load resources, there is no need to require anything beyond certainty the load will not increase above the committed down to level until the dispatch is ‘released’. This design further creates perverse incentives as if a generator and a load with demand response capabilities were behind the fence, measured net at the same meter, the AESO would treat an increase in generation and a reduction in load the same as a part of the self-supply UCAP formula. Yet, demand response load that is not paired with a generator behind the fence is treated differently. This could create the perverse incentive for large industrial demand response participants to add a generator to their site so they can become reclassified as net-to-grid self-supply to earn more revenue from the demand response capabilities of their load. Aside from the self-supply loophole, the current rules make it nearly impossible to get paid for any quantity of demand response on the supply side of the capacity market. The result will be that loads will choose to be price responsive load in the energy market

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	only rather than capacity committed demand response, as the benefits of participating in the capacity market won't justify the costs, especially as they will be further subject to significant penalties on the capacity side. This is an issue as the AESO should prefer capacity committed to price responsive load because the capacity commitment can be relied on whereas price responsive load can choose to respond or not in each hour.
2. Payment Adjustment Mechanism: Can you support using a 60/40 performance/ availability framework? Does the approach achieve the intent of higher adjustments to performance periods?	ANC supports the use of an availability framework and supports the formula for the unavailability payment adjustments. ANC is concerned with the formula for the non-performance payment adjustments. The $/MWh payment is determined at the beginning of the year based on expected EEA hours in a year, without a true up mechanism. If the AESO is wrong about the expected number of EEA hours then these penalties could cost a generator up to 130% of their annual capacity revenue. This seems counter to the intended design wherein 40% of penalties are based on availability. The AESO should cap the penalties from non-performance adjustments at a fraction of annual revenue and cap the availability penalties separately as a fraction of annual revenue such that a generator can't lose more than its annual capacity revenue from the non-performance penalties while it performs perfectly from an availability standpoint.
3. Payment Adjustment Mecham: Can you support a monthly cap at 300%? Does the approach achieve the intent of reasonably limiting adjustment payments?	ANC would prefer a monthly cap at a 100% claw back of capacity revenue. For example, if a resource is penalized 50% of its annual capacity payment from a non-performance adjustment that occurs in a single hour, day, or month, then its capacity payments should simply be withheld for 6 months rather than having the resource pay 300% of its monthly payment for two months and then begin to collect again. The smoothing of settlement is important from a cash-flow perspective and should not be an issue for the AESO to manage.
4. Payment Adjustment Mechanism: Can you support a 1.3x annual revenue/ rebalancing assessment limit? Does the approach achieve the intent of ensuring capacity resources are available for the obligation period?	ANC supports this with the caveats in response to question 2.
5. Market Power Mitigation: Can you support setting a market power screen as a fixed percentage of aggregate UCAP requirement for the auction? Does the approach meet the needs of mitigating supplier market power?	ANC supports this approach. It is ideal to only mitigate market participants that may have market power, significantly lowering administrative burden.

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6. Market Power Mitigation: Is a price cap of 50% of net CONE appropriate to mitigate the offers of suppliers with market power?	ANC suggests that 50% is likely low, but supports the concept of mitigating market participants with market power to an offer cap below the price cap.
7. Market Power Mitigation: Do you think there is sufficient support that mitigation of buyer side market power is not initially required in the capacity market?	Yes. ANC considers that there is no reason to implement a MOPR at this time.
8. Delisting: Are there some circumstances where the delist bid of an asset does not clear but the asset continues to participate in the energy market?	ANC is concerned with the rules regarding demand response (price responsive load) assets in particular. A demand response asset that does not clear the capacity market absolutely must be allowed to participate as price responsive load. It is completely untenable that a price responsive load that did not clear would lose any notion of flexibility as a load.
9. Delisting: Should a resource be able to delist from the capacity market but be eligible to participate in the energy and ancillary services market? For example: a. An asset of a non-mitigated supplier fails to clear, should it be allowed to continue energy market participation? b. For long outage requirements that are for a substantial portion of the year?	Please see comments in 8 for price responsive load.
10. Transition to Capacity Market: Is a rebalancing auction for first obligation period 2021/22 required and practical?	Yes, ANC considers that a rebalancing auction is required for the first delivery year. If it is determined that a 3-month rebalancing auction is required for all other auctions, the first auction should not be an exception.

General Comments
<u>Must offer</u> The current rules state that capacity committed demand response must offer in future auctions after it is prequalified and clears in an auction. This is unacceptable. The AESO can't force loads to continue to participate as capacity committed demand response year after year. If the business changes, the business owner needs to be able to choose to no longer sell capacity as demand

response or sell less a different amount of capacity as demand response. The business needs to come first. The sale of demand response is a helpful by-product offered by load, but not the primary purpose of industrial businesses. If the AESO takes away this flexibility, significantly less demand response will be willing to participate in the capacity market as load will be signing up for a long-term multi-year commitment. A requirement to provide notice is reasonable but a cumbersome delisting process for a resource type with no ability nor incentive to exercise market power is unacceptable.

Pricing of demand response in the energy market

The current rules state that demand response must offer into the energy market at the price cap. This rule is counter to information that would be beneficial to the AESO as if load is willing and able to curtail at lower prices, then the AESO should prefer to know when that load intends to curtail. Further, paired with the current overly restrictive dispatch rules, only allowing demand response to offer at the price cap is counter to the goals of the Alberta climate leadership plan. Only allowing demand response to offer at the price cap and only allowing the load to curtail when its energy offer is met means that the province will create electricity, possibly through use of fossil fuels such as coal and gas units, for a load that wants to reduce consumption at a given price but is incented to stay online due to capacity market rules.

Dispatch

This comment is regarding the EAS working group, of which ANC is not a part. It was noted at the general session that the AESO is contemplating changes to the dispatch tolerance rules. In response to questions at the session regarding dispatch of capacity committed demand response, the AESO noted that it intends to require the ability to dispatch capacity committed load both up and down and further clarified that capacity committed load will not be able to turn down its load without clearing in the energy market. This approach adds significant administrative burden to load as two hours out load will need to ensure that it is pricing appropriately in order to be able to reduce electricity usage when necessary. This approach is burdensome and appears to create a scheduling requirement for load in order to participate as a capacity resource. ANC accepts that the AESO needs certainty that a load will reduce when dispatched down, but it is not necessary for reliability that load responds to dispatch up signals. ANC further notes that load can be highly variable within an hour, requiring constant restatements if this scheduling concept is implemented. The commitment should be to reduce down to when dispatched – additional rules are simply a barrier to demand response.

This model creates significant barriers to entry for capacity committed demand response. If this rule does not change, Alberta Newsprint is highly unlikely to participate in the capacity market as capacity committed demand response. Alberta Newsprint's facility represents approximately 100MWs of demand response, but the rules need to be adequately flexible in order for this demand response to be sold as capacity. The currently rules are unduly restrictive.

Retirements

ANC does not support the AESO's current proposal that retirements are not allowed without AESO approval. Resources should be able to retire for reasons outside of the electricity industry. The AESO should not be able to prevent a unit from retiring if it is in their best interest to cease operations. Further, if a market participant doesn't have market power then the AESO should not be concerned about retirement choices.

Selling ancillary services

ANC notes that LSSi is an ancillary service product. Under the current CMD 1.0 rules generators are considered compliant with their capacity obligations if they are able to be dispatched as either energy or ancillary services. Accordingly, ANC would propose that offering either energy or LSSi should allow a capacity committed load to be compliant with their "down-to" obligations.

Demand Response participation on Demand Side

AESO should reconsider including demand side participation of demand response in first auction as it will be most suited for industrial and price response loads like ANC. It will reduce the overall capacity to be procured resulting in lower cost to all consumers.