

# Overview of the Alberta Capacity Market

## *Rationale*

## 1. Alberta Capacity Market Framework

To supplement the Comprehensive Market Design proposal (CMD 2), the associated rationale documents outline the rationale for the AESO's proposed design.

In 2017, the AESO, with input from industry stakeholders, identified design criteria that would drive the capacity market design. CMD 2 is intended to satisfy this design criteria. These design criteria are outlined below:

### *Design Principles*

#### Market

Capacity market should be fair, efficient, and openly competitive.

Procurement of capacity should employ market-based mechanisms, and a competitive market for capacity should be developed.

A wide variety of technologies should be able to compete to provide capacity, provided they are qualified to meet the eligibility criteria.

Capacity market mechanisms, outcomes and relevant data should be transparent.

There should be a well-defined product and an effective and efficient price signal.

#### Cost and Risk

Investment risks should continue to be largely borne by investors rather than consumers.

The market structure, which includes the capacity market, energy market and ancillary services market, should create conditions such that private investment can be reasonably expected.

There should be an effective balance between capacity cost and supply adequacy.

The term of the capacity obligation should be as short as possible, while ensuring supply adequacy objectives are achieved through sufficient investment in new capacity supply.

The design should allow consumers to manage the cost of capacity, if and where appropriate.

## Supply Adequacy and Reliability

The capacity market should achieve desired reliability objectives by creating a measurable supply adequacy product designed to provide energy production or reduced consumption when needed.

The capacity market should contribute to the reliable operation of the electricity grid, and implementation should be consistent with, and complementary to, existing measures aimed at reliability.

## Flexibility

Unique aspects of Alberta's electricity system should be considered in the design of the capacity market.

The capacity market should be compatible with other components of the electricity framework.

## Timely Development

Market should be targeted to open in 2019 with start of first capacity procurement for delivery of capacity starting in 2021.

Changes to energy and ancillary services markets required to achieve the most efficient steady-state electricity market possible may need to be staged to ensure timely initial implementation.

To the extent a staged implementation of the overall electricity market is pursued, the expected timing and nature of future changes should be provided before opening the first procurement.

The risks of regulatory delay and need for re-design should be minimized.

Common practices and lessons learned from other capacity market implementations should be leveraged as much as practicable and applicable.

Simple and straightforward initial implementation should be a priority .