6 Rebalancing Auctions

This section addresses the rebalancing auctions that will enable the AESO to purchase additional capacity and provide opportunities for capacity assets to either increase or reduce their capacity commitments

6.1 Rebalancing auction timeline and procedures

6.1.1 The AESO will utilize a rebalancing auction to enable the purchase or sale of capacity to reflect changes to expected capacity volume requirements, enable a capacity-committed asset to rebalance an obligation volume based on UCAP redetermination or project milestones, enable a capacity-committed asset to reduce or exit a capacity commitment, and enable new or previously uncommitted capacity asset volumes to establish a capacity commitment.

6.1.2 The AESO will, in the initial stages of Alberta's capacity market, utilize a transition period during which auctions are conducted on a compressed schedule whereby one base auction and one rebalancing auction will be held for each obligation period. Table 1 shows the rebalancing auction timeline in the transition period. The dates with asterisks will be finalized in the implementation stage.

Table 1 – *Timeline for rebalancing auction in the transition period*

Rebalancing Auction Qualification Starts	Rebalancing Auction Finalized Date	Obligation Period
Dec. 2020*	Jul. 2021	2021/22 (Nov. – Oct.)
Dec. 2021*	Jul. 2022	2022/23 (Nov. – Oct.)
Dec. 2022*	Jul. 2023	2023/24 (Nov. – Oct.)

6.1.3 Following completion of the transition period, the AESO will conduct two rebalancing auctions after the base auction, at eighteen and three months prior to the start of an obligation period. Table 2 provides an indicative schedule for the base auction and rebalancing auctions with respect to the 2024/25 obligation period.

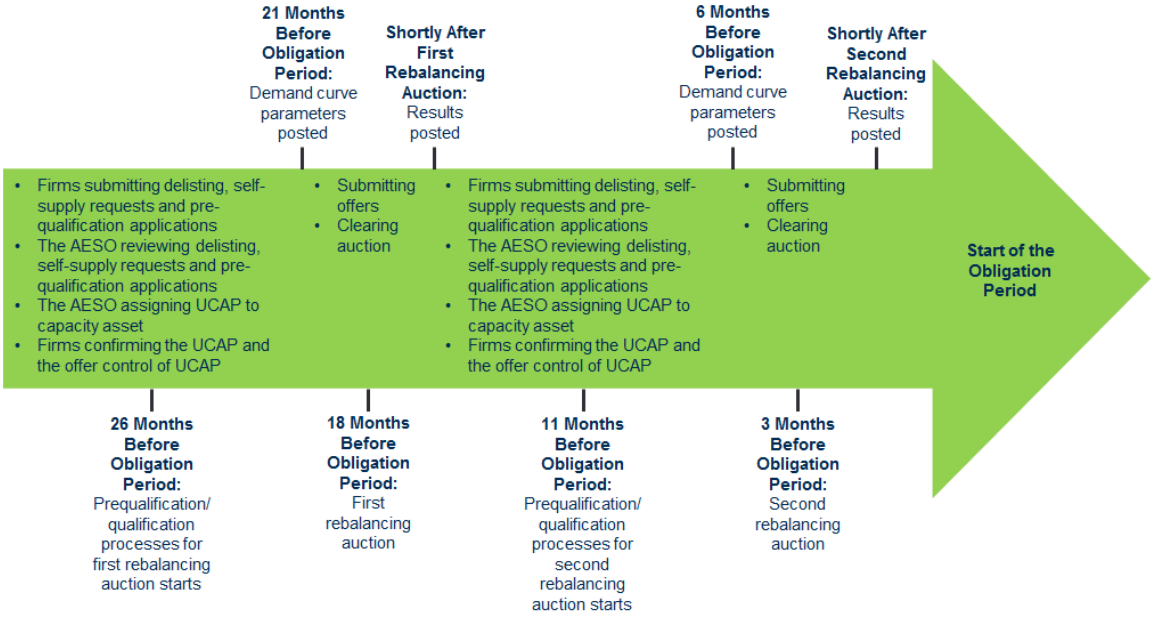
Table 2 – *Timeline for rebalancing auctions for obligation period of 2024/25*

Auction Finalized Date	Forward Period	Auction Type
Oct. 2021	36 Months	Base Capacity Auction
Apr. 2023	18 Months	First Rebalancing Auction
Jul. 2024	3 Months	Second Rebalancing Auction
Nov. 2024	N/A	Start of Obligation Period

6.1.4 The AESO will conduct rebalancing auctions in a similar manner to the process to be used for a base auction, which is described in Section 5, *Base Auction*. Figure 1 below provides an indicative timeline of activities contemplated for a rebalancing auction. A rebalancing auction will include both prequalification and qualification stages, commencing approximately eight months ahead of the auction.

6.1.5 The AESO will notify participants of the auction results shortly after the submission window closes.

Figure 1 – *Timeline for rebalancing auctions*



6.2 Bids and offers by capacity market participants

6.2.1 Capacity market participants will have the opportunity to participate in rebalancing auctions to adjust their positions ahead of the obligation period. In addition to the AESO, only capacity suppliers with capacity commitments can buy capacity in a rebalancing auction. Capacity assets that did not clear the prior auction(s), capacity available from uprates and UCAP increases made available subsequent to the prior auction(s) or capacity from new capacity assets that may have been qualified for a rebalancing auction must submit offers to sell into a rebalancing auction. Capacity suppliers that wish to reduce their capacity commitments may do so by submitting repricing bids to buy out of their capacity commitments. Capacity suppliers that are obligated to reduce their capacity commitment due to a UCAP reduction must submit a UCAP reduction bid.

6.2.2 A capacity committed asset that is physically unable to meet its capacity commitment due to UCAP reductions or because it has not achieved development milestones (and therefore will not be operational by the commencement of the obligation period) by the time the second rebalancing auction is conducted will be required to participate in a rebalancing auction by submitting a bid price marginally above the price cap to ensure they clear in that rebalancing auction. Each capacity committed asset that does not submit a repricing or UCAP reduction bid will be treated as a price-taker in the rebalancing auction and will not be subject to rebalancing auction clearing or capacity market settlement. The types of rebalancing transactions are described in more detail below:

(a) ***Incremental sell offers.*** The must offer requirement will apply to a rebalancing auction. All qualified capacity volumes that have not previously cleared in an auction for the obligation period have a must offer requirement, subject to delisting.

(b) ***Repricing (buy-out) bids.*** Capacity committed assets that have a capacity commitment and wish to reduce their capacity commitment can submit repricing bids. If a rebalancing auction price clears below or at the bid price of that capacity committed asset the obligation volume will be reduced by the volume cleared. If a rebalancing auction clears at a price above the bid price, the capacity committed asset will retain its obligation volume and will not be subject to capacity market settlement as a result of the rebalancing auction.

(c) ***UCAP reduction bids (incorporated in supply offers under gross clearing)***. A capacity committed asset that is physically unable to deliver on a prior capacity commitment must submit a UCAP reduction bid. The reduction bid will be priced marginally above the price cap. This type of bid will be used for: (a) a new capacity asset that has not achieved development milestones and therefore is required to buy out of its capacity commitment, and (b) cases in which a UCAP reduction has caused the existing obligation volume of an existing capacity asset to be greater than its final UCAP. The final UCAP of a capacity asset is determined in accordance to Section 3, *Calculation of Unforced Capacity (UCAP)*. If in the last rebalancing auction, capacity assets have not remedied a situation where an asset's obligation volume exceeds the asset's UCAP, the AESO will post a UCAP reduction bid for the UCAP deficit at a price marginally above the price cap. The capacity supplier will be responsible for all the costs associated with covering the capacity commitment caused by such UCAP reduction.

Unless participating as described in (a) – (c) above, it will be assumed that a capacity committed asset that has already taken on a capacity commitment does not wish to adjust its capacity commitment and will not participate in a rebalancing auction. For auction clearing purposes, all such capacity committed assets will be accounted for in auction clearing but will not be subject to any capacity market settlements as a result of the rebalancing auction nor will that asset's capacity commitments be adjusted.

6.2.3 Capacity supplier repricing bids shall be asset specific. The accumulated volume of the bids associated with a capacity committed asset shall not exceed the capacity commitment established during prior capacity auctions for the same obligation period. Bid quantities in each price-quantity pair shall be incremental quantities, such that the aggregate UCAP bid volume across all price-quantity pairs submitted decreases monotonically with increasing price.

6.2.4 Each capacity committed asset is allowed to submit up to seven bid blocks. The lowest priced bid block may be designated as inflexible or flexible. All higher priced bid blocks must be flexible.

Each qualified capacity asset in a rebalancing auction is allowed to submit up to seven offer blocks. The first offer block may be designated as inflexible or flexible. All higher priced offer blocks must be flexible. If both existing capacity and incremental capacity are offered from the same capacity asset, they may use up to seven blocks in total and the following rules will apply with respect to flexibility of blocks:

- the first block that contains existing capacity may be designated as inflexible or flexible;
- all blocks with higher offer prices containing existing capacity must be flexible;
- the first block that contains incremental capacity may be designated as inflexible or flexible; and
- all blocks with higher offer prices containing incremental capacity must be flexible.

6.3 AESO's bids and offers

6.3.1 In a rebalancing auction, the AESO's bids and offers are implied in the rebalancing auction demand curve.

6.4 Auction clearing, price setting, and settlement

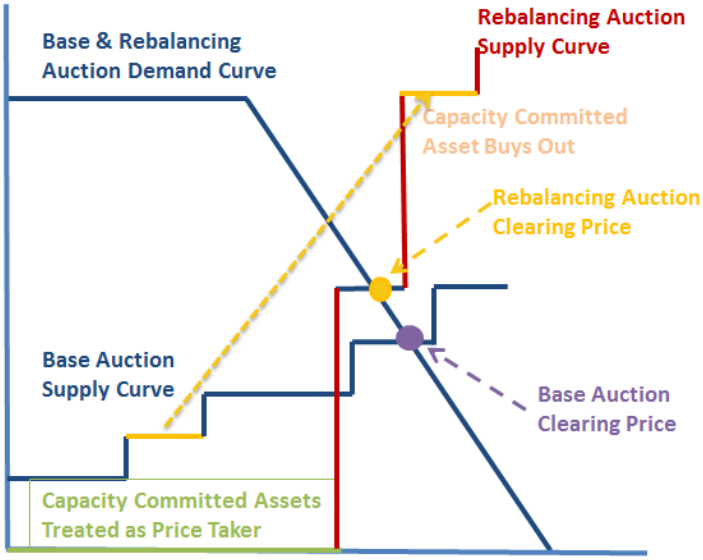
6.4.1 The AESO will clear a rebalancing auction on a gross basis and settle on a net settlement basis (i.e. settled only based on volume changes from the previous auction). All of the AESO's bids and offers will be reflected in the demand curve, as described in subsection 4.5.1 of Section 4, *Calculation of Demand Curve Parameters*. All bids to buy out capacity commitments and offers to sell capacity will be represented on the supply curve. Cleared assets from the prior auction(s) that do not submit bids will be treated as price takers in the rebalancing auction. The rebalancing auction will clear using the same mechanics as the base auction, as described in subsection 5.8 of Section 5, *Base Auctions*. The resulting rebalancing auction clearing price will be used to settle differences between cleared volumes in a rebalancing auction and the prior auction(s) for the same obligation period.

6.4.2 The five examples below illustrate how the first rebalancing auction will function after a base auction is completed. Note that the same principles apply to the second rebalancing auction after the completion of the base and first rebalancing auction.

(a) **Scenario 1: No change in demand curve; a capacity committed asset buys out; and the AESO releases previously procured capacity.**

- The AESO's load forecast is unchanged relative to the base auction, and all else equal, the rebalancing auction demand curve is the same as the base auction demand curve.
- A capacity committed asset fully buys out of its capacity commitment.
- A capacity asset that has not cleared in the base auction sets the market clearing price of the rebalancing auction, which is higher than the base auction clearing price.
- The capacity committed asset that buys out pays the rebalancing auction clearing price multiplied by its rebalancing cleared volume. Because it also receives the base auction clearing price multiplied by its previously cleared volume, this results in net payment from the asset that buys out of its capacity commitment from the base auction for the volume bought out.
- The AESO releases some of the previously procured volume and receives the rebalancing auction clearing price multiplied by its released volume.
- The capacity asset that was not cleared in the base auction but sets the clearing price in the rebalancing auction receives the rebalancing auction clearing price multiplied by its volume cleared in the rebalancing auction.
- Capacity market settlements for all capacity committed assets that did not buy out in the rebalancing auction are unaffected.

Figure 2 – *Auction price setting for scenario 1*



(b) **Scenario 2: Load forecast increases; a new capacity asset sells and partially clears; and the AESO procures additional volume.**

- The AESO's load forecast increases relative to the base auction, and all else equal, this shifts the rebalancing auction demand curve to the right.
- A new capacity asset offers, and partially clears, setting the rebalancing auction clearing price above the base auction clearing price.
- The AESO pays the rebalancing auction clearing price multiplied by its additional volume procured in the rebalancing auction.
- The new capacity asset receives the rebalancing auction clearing price multiplied by its volume cleared in the rebalancing auction.
- Capacity market settlements for all previously cleared capacity committed assets are unaffected by the rebalancing auction.

Figure 3 – *Auction price setting for scenario 2*

(c) **Scenario 3: No change in demand curve; a new capacity asset sells and partially clears; a capacity committed asset buys out; and the AESO procures additional volume.**

- The AESO's load forecast is unchanged relative to the base auction, and all else equal, the rebalancing auction demand curve is the same as the base auction demand curve.
- A capacity committed asset fully buys out of its capacity commitment.
- A new capacity asset offers, and partially clears, setting the rebalancing auction clearing price below the base auction clearing price.
- The capacity committed asset that buys out pays the rebalancing auction clearing price multiplied by its rebalancing cleared volume. Because it also receives the base auction clearing price multiplied by its previously cleared volume, this results in net revenue to the asset that buys out its capacity commitment from the base auction for the volume bought out.
- The AESO buys an additional volume. The AESO pays the rebalancing auction clearing price multiplied by its additional volume procured in the rebalancing auction.
- The new capacity asset receives the rebalancing auction clearing price multiplied by its volume cleared in the rebalancing auction.
- Capacity market settlements for all capacity committed assets that did not buy out in the rebalancing auction are unaffected.

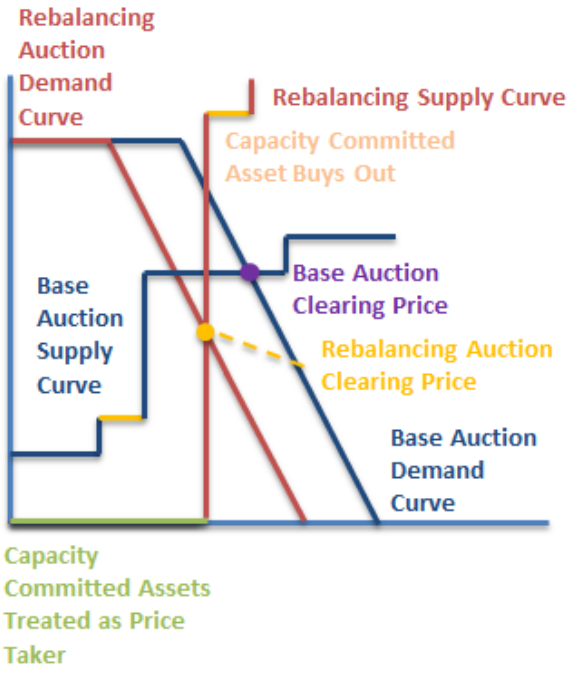
Figure 4 – *Auction price setting for scenario 3*

(d) **Scenario 4: Load forecast decreases; a capacity committed asset buys out; and the AESO releases previously procured capacity.**

- The AESOs load forecast decreases relative to the base auction, and all else equal, this shifts the rebalancing auction demand curve to the left.
- A capacity committed asset submits a UCAP reduction bid above the price cap, and fully buys out of its capacity commitment.
- The rebalancing auction clearing price is below the base auction clearing price.

- The capacity committed asset that buys out pays the rebalancing auction clearing price multiplied by its volume cleared in the rebalancing auction. Because it also receives the base auction clearing price multiplied by its previously cleared volume, this results in net revenue to the asset that buys out of its capacity commitment from the base auction for the volume bought out.
- The AESO releases some of the previously procured volume and receives the re-balancing auction clearing price multiplied by its released volume.
- Capacity market settlements for all capacity committed assets that did not buy out in the rebalancing auction are unaffected.

Figure 5 – *Auction price setting for scenario 4*

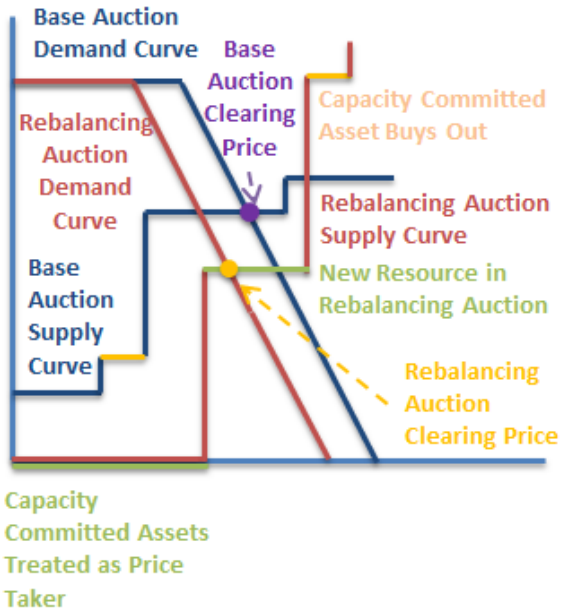


(e) **Scenario 5: Load forecast decreases; a new capacity asset sells and partially clears; a capacity committed asset buys out; and the AESO releases previously procured capacity.**

- The AESOs load forecast decreases relative to the base auction, and all else equal, this shifts the rebalancing auction demand curve to the left.
- A capacity committed asset buys out of its capacity commitment.
- A new capacity asset sells and partially clears, setting the rebalancing auction clearing price below the base auction clearing price.
- The capacity committed asset that buys out pays the rebalancing auction clearing price multiplied by its rebalancing cleared volume. Because it also receives the base auction clearing price multiplied by its previously cleared volume, this results in net revenue for the asset that buys out its capacity commitment from the base auction for the volume bought out.
- The AESO releases some of the previously procured volume and receives the re-balancing auction clearing price multiplied by its released volume.
- The new capacity asset receives the rebalancing auction clearing price multiplied by its volume cleared in the rebalancing auction.

- Capacity market settlements for all capacity committed assets that did not buy out in the rebalancing auction are unaffected.

Figure 6 – *Auction price setting for scenario 5*



6.5 Anticipated transmission constraints

6.5.1 Individual and simultaneous import limits from adjacent areas will be updated to reflect the most up-to-date information as of the commencement of a rebalancing auction.

(a) if intertie transmission constraints prevent delivery of all impacted incremental supply offers, incremental supply offers behind the constraint will be rationed in the manner described in Section 5, *Base Auctions*;

(b) if intertie transmission constraints prevent delivery of commitments from the prior auction(s), those capacity commitments cleared in the prior auction(s) will be rationed in the manner described in Section 5, *Base Auctions*; and

(c) an external asset with a capacity commitment that is no longer able to deliver its capacity commitment due to a reduction in intra-provincial transmission capability will not be subject to reduced capacity payments but will have its cleared volumes reduced to reflect the updated transmission capabilities.

6.5.2 Intra-Alberta transmission constraints will be updated to reflect the most up-to-date information as of the commencement of the rebalancing auction.

(a) if intra-Alberta transmission constraints prevent delivery of all impacted incremental supply offers, incremental supply offers behind the constraint will be rationed in the manner described in Section 5, *Base Auctions*;

(b) if intra-Alberta transmission constraints prevent delivery of commitments from the prior auction(s), those capacity commitments cleared in the prior auctions will be rationed in the manner described in Section 5, *Base Auctions*; and

(c) a capacity committed asset that is no longer able to deliver its capacity commitments due to a reduction in intra-Alberta transmission capability will not be subject to reduced capacity payments but will have its cleared volumes reduced to reflect the updated transmission capabilities. The reduction in intra-Alberta transmission capacity does not refer to issues occurring in other jurisdictions or related to distribution system limitations.