

Stakeholder Comment Matrix – October 8, 2019

Request for input on market power mitigation



<p>Period of Comment: October 8, 2019 through October 29, 2019</p> <p>Comments From: The Cogeneration Working Group is comprised of the following members: Canadian Natural Resources Limited; Cenovus Energy Inc.; Dow Chemical Canada ULC; Imperial Oil Resources Limited; Inter Pipeline Ltd.; Lafarge Canada Inc.; MEG Energy Corp.; Suncor Energy Inc.; Syncrude Canada Ltd.; and TransCanada Energy Ltd.</p> <p>This submission represents the consensus view of the group and is submitted on behalf of the group by Power Advisory LLC. Individual member companies may also make independent submissions</p> <p>Date: 2019-10-15</p>	<p>Contact: [REDACTED]</p> <p>Phone: [REDACTED]</p> <p>Email: [REDACTED]</p>
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The AESO is seeking comments from stakeholders on market power and market power mitigation in Alberta's energy and ancillary services markets.

	Questions	Stakeholder Comments
1.	What has been effective in Alberta's historical approach to market power mitigation in the energy-only market, and what could be improved?	<p>Alberta's historical approach has been effective. The approach has allowed market prices to reflect fundamentals, and prices have reliably signaled a need for new investment with high prices as well as signaled an over supplied market with low prices. Alberta has avoided excess mitigation that sets prices at marginal cost in the vast majority of hours until emergency conditions are reached, and this has created a much more reliable and realistic price signal.</p> <p>Clarity and consistency of market power mitigation can and should be improved. For example, the withdrawal of the OBEGs in anticipation of a capacity market was premature and had a negative impact on the consistency of the price signal. Offer rules such as the OBEGs should have been an amendment to the FEOC Regulation rather than simply a guideline subject to MSA interpretation.</p>
2.	Do you expect the historical approach to market power mitigation in the energy-only market (e.g. OBEG, ex-post monitoring, must offer, 30% offer control limit, FEOC Regulation) will be effective	The historical approach to market power mitigation will be effective on a go-forward basis. The key element of the Alberta approach has been a 'pro-market' view of mitigation that allows competition to discipline prices, rather direct ex ante

	<p>on a go-forward basis? If yes, please explain your rationale. If no, please explain your rationale and changes required.</p>	<p>interference with the market that administratively influences prices. The CWG strongly supports the continued use of this type of approach.</p> <p>Very little has changed in the market relative to when the various aspects of current the mitigation scheme were put in place.</p> <ul style="list-style-type: none"> - OBEGs were put in place to allow dynamic efficiency (maintain resource adequacy and signal the need for investment) in the context of Alberta's energy only market. Alberta continues to require long-term investment signals for both existing and new capacity and prices must be allowed to reflect both fixed and variable costs. - Ex-post monitoring is appropriate as it allows market participant interactions to set a price. Ex ante mitigation introduces an entirely administrative element to the market price. - Must offer rules against physical withholding are appropriate and should be maintained. - The 30% offer control limit was put in place with significant government consultation and more complex methodologies and tighter limits were rejected. <p>On a go-forward basis, if elements of the mitigation scheme are deemed to be insufficient, changes must be in response to a specific issue. The over-riding framework should allow participants to set the price through competitive interactions.</p> <p>For example, if the AESO demonstrates that the 30% offer control cap is no longer appropriate, the solution should allow for flexible market-based approaches to mitigate the risk of concentration. Increased scrutiny of offers from participants with higher market share, evaluation of net positions including forward contracting, participant specific mitigation plans or other approaches that do not interfere in the market on an ex ante basis are preferred. The fundamental premise of the Alberta market design must be maintained – prices are a function of competitively determined generator offers and real-time demand. If this concept is altered, it will very likely trigger secondary consequences that erode market confidence and sustainability.</p>
3.	<p>If deemed that additional mitigation measures are required in the energy-only market, please indicate whether they should be applied ex-ante (mitigation occurs prior to prices being set) or</p>	<p>Alberta's market has demonstrated an ability to deliver competitive outcomes with the existing framework.</p> <p>Any new mitigation measures should only be considered to address a specific</p>

	<p>ex-post (mitigation occurs following market prices being set).</p>	<p>problem that has been identified and demonstrated with actual data. CWG strongly objects to ex-ante interference in the spot market. This type of administrative interference introduces a new level of risk, change management concerns and almost certainly unintended consequences. Ex-ante mitigation of spot market offers is at odds with the overall market framework.</p>
<p>4.</p>	<p>What has been effective in Alberta's historical approach to market power mitigation in the operating reserves market, and what could be improved?</p>	<p>The operating reserves market is voluntary, and this factor must be recognized in the mitigation framework. The main elements of mitigation in this market have been around ensuring performance and removing the AESO's influence on the market. These changes were appropriate.</p> <p>If improvements are to be made in OR market, they should be focused on ensuring the maximum number of participants:</p> <ul style="list-style-type: none"> - Improve risk management options (3rd party asset substitution and closer to real-time liquidity) to allow greater participation - Improve the transparency around ancillary services market outcomes - Continue to improve market access for new technology types and service providers <p>The OR market should remain voluntary, and as such potential efforts in this area should focus on encouraging greater participation to ensure competitive outcomes. For example, it is unclear that the 80 MW restriction on volume from an individual generator is required as this seems an unnecessary restriction on competition (absent a reliability concern that should be clarified and adjusted as the system expands).</p>
<p>5.</p>	<p>Do you expect the historical approach to market power mitigation in the operating reserves market (e.g. FEOC regulation, indexed to pool price) will be effective on a go-forward basis? If yes, please explain your rationale. If no, please explain your rationale and changes required.</p>	<p>The current approach will continue to be effective. The expiry of the PPAs, and in particular the Hydro PPA, will likely impact the market but competition will continue to be robust. As noted, the AESO should focus on enabling greater transparency and market access to ensure competitive outcomes.</p>
<p>6.</p>	<p>If deemed that additional mitigation measures are required in the operating reserves market, please indicate whether they should be applied ex-ante (mitigation occurs prior to prices being set) or ex-post (mitigation occurs following market prices being set).</p>	<p>Mitigation measures are very problematic in a voluntary market. In this regard, measures should be applied ex-post when a behavior intended to manipulate outcomes is identified.</p>

7.	What criteria should be considered in evaluating Alberta's mitigation framework? Would you rank one or some of these criteria more highly than others?	The primary criterion that should be evaluated is whether the mitigation is justified in light of the historically competitive outcomes in Alberta. In other words, if there is a change in market fundamentals, is the incremental mitigation measure addressing that change very specifically and not stepping into the market and altering the fidelity of the price signal.
8.	Are there unique characteristics of Alberta's electricity market that may impact whether the market power mitigation approaches used in other jurisdictions are suitable for Alberta? If so, please describe them.	<p>The unique aspects of Alberta's market are basically unchanged relative to the nearly 20 years the market has been operating. Alberta should continue to rely on our 20 years of successful market operation and competitive price signals.</p> <p>With respect to mitigation in other markets, it is important to recognize that markets work together as a package. Importing a portion of a framework is likely to be problematic.</p>
9.	What do you think the appropriate role for the AESO is in Alberta's mitigation framework?	<p>The AESO is responsible for developing clear market rules. The AESO is not responsible for dictating offers and directly driving outcomes.</p> <p>The AESO should facilitate competitive markets. In addition to clear market rules, this requires:</p> <ul style="list-style-type: none"> - Transparency - Timely and relevant information - Better offer reporting and a level information playing field - Open consultation with stakeholders if a need for a change is identified
10.	What do you think the appropriate role for the MSA is in Alberta's mitigation framework?	The MSA is responsible for monitoring and enforcing rules. The MSA should not be free to develop what acts as market rules (e.g. the OBEG).
11.	Please describe your role in the Alberta electricity market.	
	a. Are you a load, a generator, both, neither (e.g. developer, storage, interested party)	The CWG is comprised of companies that own co-generation assets in Alberta.
	b. What is the approximate size of your load and/or generation?	The CWG members combined own a significant percentage of the gross load and gross generation in the province of Alberta.

	c. Do you participate in the energy market, AS market, both?	CWG members participate in both markets.
	d. Do you forward hedge? If so, is it physically, financially, both? What percentage of your portfolio is hedged?	This differs across CWG members, with both physical and financial hedges along with no hedging.

Thank you for your input. Please email your comments to: stakeholder.relations@aeso.ca.