

# **Capacity Market Cost Allocation T&C Working Group**

## **Richard Stout Working Group Chair**

### **Report to Tariff Design Advisory Group**

**Calgary, March 6<sup>th</sup> 2019**

#### **Legal Review**

At the last TDAG meeting on February 7<sup>th</sup> a legal review of the ability to include penalties or incentives to self-supply customers in the terms and conditions of capacity market cost recovery was still pending. The AESO subsequently completed this review and concluded that:

1. Penalties or incentives cannot be applied to loads at self-supply sites or other subsets of classes of system access service.
2. Capacity market costs can be allocated at a different measurement point than the point of delivery (“POD”) used for transmission settlement of system access services.
3. Capacity market costs must not be allocated to isolated communities.

As a result of these conclusions the working group rejected the concept of applying any form of incentives or penalties for failure to self-supply, and also that the POD load gross-up to account for the participation of distribution-connected generators was appropriate.

#### **Self-Supply Monitoring**

Following the working group decision to reject penalizing failures to self-supply, a proposal was made to monitor self-supply behaviour and establish a threshold for re-evaluation of this provision as final market design had identified self-supply behaviour to be a potential concern.

It was noted that all loads (with or without self-supply) may behave differently than forecast and that would later be reflected in the RAM analysis. AESO will consider the monitoring proposal and develop a position for the next working group meeting.

## **Distribution Metering Gross-Up**

It had been previously agreed to gross-up measurements of loads in order to account for the participation of distribution-connected generation capacity. A proposal was made to similarly gross-up distribution-connected interruptible loads that may participate in the capacity market.

The majority view of the group confirmed that gross-up for distribution-connected generation remains appropriate (excluding those within an industrial site). Reservations over the need to gross-up distribution-connected interruptible load were expressed. As participation in the capacity market of distribution-connected load through aggregation is considered improbable in the initial auctions, the issue was parked for consideration in a later development.

## **Deferral Account Recovery Riders**

There was agreement that initial charges should be as accurate as possible and the balance of deferred costs/credits minimized. If this is achieved, preferences and concerns over the use of any particular recover mechanism become largely academic. In this case a prospective 12month approach would be simpler to implement and likely meet with greater customer acceptance.

If the AUC requires an ex-post capacity market approach, then deferral account balances may be increased to the point that the choice of mechanism and true-up delays become material. If the AESO cannot demonstrate that the deferral account balance will be acceptably small (including for individual customers) then more complex approaches need to be considered.

The issue of using only historical variances versus historical plus forecast variances as in Rider C was raised. Assuming only historical volume variances, the group preference is to recover them over the following quarter. If historical and forecast variances are recovered, then the group preference would be to recover them over the balance of the year.

Otherwise recovery over a 12month period remains an option for small deferral account balances as this is both simple to manage and is consistent with the goal of capacity market cost allocation to provide long-term and predictable price signals.

Further analysis of the likely size of deferral account balances and the materiality of customer impact under each of these approaches is required.

## **Future meetings**

The group will pause during March to handle other workloads and then resume work to determine what analysis is needed to support T&Cs and to review draft rate sheets. Due to the pause there can be no group meeting prior to the next TDAG on scheduled for April 6th

