Capacity Market Mitigation

Proposed Approach

Background – CMD 2 Proposal

- Market Power Determination:
  - Portfolios with ability to profitably increase the clearing price by 10% or more
  - Existing UCAP within these portfolios subject to mitigation
- Default Offer Price Cap:
  - 50% of net CONE for those that fail market power screen
- Allow Asset-Specific Offer Price Cap
  - Firm may request an asset-specific offer price cap for an asset whose avoidable cost is higher than the default offer cap.

CMD 2 Feedback

- Concerns were raised regarding:
  - Over mitigation impacting investor confidence
  - Measure used to determine market power
  - Amount of market subject to mitigation
  - Default offer price cap being too low
  - Excluding return on/of capital

Addressing Feedback

- Market Power Formula
  - A portfolio size threshold fails to account for demand curve shape
  - 10% threshold balances risk of over mitigation and consumer exposure to price increases
- Excluding Return on/off Capital in Price Cap Challenges
  - Costs should reflect only those costs which could be avoided if the unit mothballed or retired
  - A firm with only one asset would not include return on or of capital in its offer
- Other Feedback
  - See Options A and B on next slides

Two Alternatives

In response to stakeholder feedback, the AESO is presenting two alternative approaches to capacity market power mitigation.

- Option A
  - Same as CMD 2 but with 0.8 times net CONE cap
- Option B
  - No market power screen
  - Cap at net CONE
  - No challenges

Option A

- Leave market power screen as it is in CMD 2
- Increase default offer cap to 0.8 times net CONE
  - AESO modelling indicates go-forward costs of some assets were higher than 0.5 times net CONE. Using 0.8 is expected to significantly reduce the number of asset-specific price cap requests.
- Continue to allow asset-specific price cap requests
- Continue to exclude return of or on sunk capital in avoidable cost submissions that support asset-specific price cap requests

Option B

- Increase default offer cap to net CONE
  - Based on AESO modelling, this should allow most assets to recover go-forward costs
- Apply to all existing assets
  - No market power screen
- Remove ability to submit asset specific price cap requests

Comparison of Options

Approach	Pro	Con
1. Market power screen 2. 0.8 * net CONE cap 3. Asset-specific requests (avoidable costs only)	• Strikes balance between allowing most of existing assets to recover go-forward costs and limiting consumer exposure to market power. • Addresses the concern of over-mitigation and ensures an attractive investment climate.	• High administrative burden. • If the makeup of the market fails to attract new entrants, consumers are exposed to the possibility of long-run prices above net CONE. • Changes in net CONE over time may not relate to the costs of existing assets.
1. No screen 2. Net CONE cap for all 3. No asset-specific requests	• Minimizes administrative burden. • Attracts investment through increased potential to recover of/on capital. • Reduces the risk to consumer if the market fails to attract new entrants. • Net CONE is a logical cap that represents the cost of the alternative (no disconnect between fraction of net CONE and the costs of existing assets).	• Consumers potentially exposed to higher prices if market power is used to increase clearing to net CONE, particularly when new generation isn't required.

Discussion

- Looking for feedback on the two options…