



Capacity Market

Questions and Answers

What is a capacity market?

- A capacity market is actually two markets in one: a market for providing capacity, or the ability to produce energy, and a market for the actual production and delivery of energy. A capacity market pays electricity generators for having the ability to reliably make power available regardless of how often they sell energy onto the grid. The purpose of the capacity market is to ensure there will be an adequate supply of electricity to meet the province's demand.

Why did the AESO recommend a capacity market?

- One of the key objectives of any power market is to incent enough generation to meet demand today and in the future.
- The AESO recommended that Alberta's electricity market structure needs to transition following research that indicates the existing energy market structure will not ensure the necessary investment in new generation that Alberta requires.
- The AESO studied a number of structures and found that a capacity market best fit Alberta's characteristics and objectives with the least amount of risk. A capacity market ensures continued reliability of the system in a cost effective manner while enabling the transition to a cleaner, lower-carbon electricity system over the coming years.

What are the key benefits of a capacity market?

- A capacity market provides the following combination of benefits which no other single market structure can:
 - Ensures reliability as Alberta's electricity system evolves
 - Increases stability of prices
 - Provides greater revenue certainty for generators
 - Maintains competitive market forces and drives innovation and cost discipline
 - Supports implementation of Climate Leadership Plan initiatives and is adaptable to future policy evolution

How will the capacity market work with the Renewable Electricity Program (REP)?

- The REP was designed to be robust, flexible, sustainable and scalable. It can work with a variety of market structures, including a capacity market.
- The capacity market will not be implemented in Alberta until after 2019, and as such renewable projects that receive support payments under the first REP competition will not be eligible for capacity payments.
- As the AESO works through the detailed design of the capacity market we will best determine how to align its implementation with future REP competitions.

What other jurisdictions have a capacity market?

- Many jurisdictions in the United States have capacity markets, including the PJM Interconnection LLC, ISO New England, New York ISO, and the Midcontinent ISO. The UK also relies on a capacity market.
- We will learn from the experiences of other jurisdictions in order to help ensure a successful transition in Alberta.

Does this mean that Alberta no longer has an energy market?

- No, a real-time energy market will still be relied upon for generating electricity and delivering it to Albertans.

How much will this cost Albertans?

- In order to maintain reliability, prices will need to rise as existing generation retires to incent new generation to build.
- A capacity market uses competitive forces to incent suppliers to provide innovative and low cost solutions; therefore, this shift is not expected to increase costs beyond the level of increase expected in the current energy market, and may in fact result in reduced cost increases for consumers.

How will Alberta's capacity market function with our existing energy market structure?

- Generators will participate in the capacity market to provide the capability to generate electricity, and participate in the energy market to provide energy.

What is the timeline for designing and introducing a capacity market?

- This transition will be a significant undertaking. To ensure a robust and stable transition we expect the new structure to be in place by 2021. The timeline is as follows:
 - 2017: stakeholder engagement to determine design
 - 2018: incorporation of design into ISO rules, contracts and/or legislation as required
 - 2019: first procurement begins
 - 2020/21: first contracts awarded

How can stakeholders become involved in the design process?

- The AESO is committed to a transparent stakeholder engagement process. We will engage with industry stakeholders on an ongoing basis to design the best possible capacity market for Alberta.
- Stakeholders are encouraged to monitor the AESO's website and sign up for our stakeholder newsletter for updates.