

March 8, 2018

Via electronic submission to Capacity Market SharePoint

Attention: Murray Hnatyshyn and Steve Waller

**Re: Draft Prequalification Requirements for the Capacity Market
Comments of Capital Power**

Capital Power provides this letter in response to the AESO's request for feedback on the draft General Prequalification Process and Requirements document posted to the Capacity Market SharePoint site on February 23, 2018. Before commenting on specific sections of the draft, Capital Power provides the following general comments.

General Comments

First, Capital Power notes the preliminary nature of the posted draft and believes that further details, additional drafts and further opportunities for comment and review by working group members and stakeholders are required. Consequently, the feedback provided below on the proposed draft is subject to change based on potential forthcoming revisions.

Second, there are a number of capitalized terms used throughout the draft that require definition from the AESO before a full review and assessment can be performed.

Finally, it appears that many of the pre-qualification requirements have been imported from the Renewable Electricity Support Agreement ("RESA") used in Round 1 of the Renewable Electricity Program ("REP") without consideration as to whether these provisions are necessary or appropriate for qualifying capacity resources. The RESA is a 20-year contract for differences and, as such, is fundamentally different from the capacity market obligation. The AESO should develop capacity market pre-qualification requirements that reflect the specific risks of capacity delivery. Importing REP Round 1 /RESA provisions without an appropriateness check may create pre-qualification requirements for capacity that are generally more onerous and less flexible than warranted.

Capital Power believes that the AESO's concerns regarding the ability of a new capacity resource to deliver should be reasonably addressed through the combination of a financial strength and capacity check of the resource proponent, a "project realness" test, and the provision of financial security to cover potential failure and non-delivery. Additional requirements such as submission of line-by-line project funding allocations and stakeholder engagement plans are superfluous.

Further comments are provided on the next page.

Section 2.1.1

General Prequalification Requirements for Capacity Resources

- It is unclear whether existing Alberta assets will have to undergo prequalification prior to the first capacity auction, please clarify.
 - Capital Power believes that existing assets that meet the qualifications to participate in the energy-only market ("EOM") today should automatically qualify for the capacity auction. This is consistent with what has been proposed for CMD1. UCAP calculations for existing EOM assets and supporting data should be provided to asset owners in advance of the auction and they should be given the opportunity to challenge/adjust/dispute the AESO's calculation.
 - Any grandfathering provisions and exemptions that exist today in ISO rules, including those highlighted in Section 2.1.1(c), must be carried forward and honored in the capacity market. Additionally, all existing arrangements and exemptions (in application or approved) related to technical and operating requirements should also be honored and carried forward.

General Prequalification Package for New Capacity Resources

- Capital Power recommends making "General Prequalification Package for New Capacity Resources" its own numbered section.

General Information Data

- Capital Power has no comments on this subsection at this time.

Detailed Project Implementation Plan including Key Timeline and Milestones

- Please clarify the nature of the project milestones specified in 2.1.1(b), including major equipment delivery, and whether they are intended to be binding in any fashion.
 - It is reasonable for the AESO to request project information to establish the legitimacy of proposed new projects and to demonstrate they can reasonably achieve commissioning by the delivery date.
 - Given that pre-qualification will begin 3 years and 8 months prior to delivery, project milestone dates will be based on best estimates and must be recognized as subject to change. Negotiations with equipment vendors and suppliers in some cases may not be finalized until as late as 1-2 years prior to commissioning. Generation developers require the flexibility to change technology and select the newest most efficient equipment, and that should be recognized in these requirements.
 - If any project milestones, aside from delivery at the start of the capacity obligation term, are intended to be binding, the AESO must specify a process for changing/updating these dates and any consequences of not meeting them.
- Please explain why the information requested in 2.1.1(b)(v) is necessary given the AESO's role in managing the transmission connection process and its existing access to this information.

Operational Requirements

- As stated above, Capital Power believes that any grandfathering provisions and exemptions that exist today in ISO rules, including those highlighted in Section 2.1.1(c), must be carried forward and honored in the capacity market.

Financial Strength and Equity Commitment Requirements

- As mentioned above, capitalized terms used throughout the document need to be defined. A more detailed and formal definition of "Designated Equity Provider" and "Equity Support Person" is required than what is provided in footnote 3.
- Section 2.1.1(d)(ii)(E) references "subsection (iv) above", it is not clear to Capital Power the section that is being referenced. There is no such subsection above in the financial section. Please clarify.
- Section 2.1.1(d)(iv) states, "demonstrate sufficient financial robustness to satisfy the AESO." Please explain in detail the measures and thresholds that will be used by the AESO to make this assessment and determine "sufficient financial robustness".
- It is unclear to Capital Power how Section 2.1.1(d)(iii) and Section 2.1.1(d)(iv) differ in terms of purpose and requirements. Please explain and provide an illustrative example.

- Please clarify what is meant by “full financial security to cover failure” in Section 2.1.1(d)(vi), and specify the value or calculation that will be used. It appears that the calculation is to reflect the credit requirements for new resources proposed in Section 2.4 of CMD1, however this is not explicitly clear in the document. If this is the intention, Capital Power notes that the credit requirements proposed in CMD1 seem reasonable, but wishes to provide further comment on these requirements in future CMD comments after completing a more thorough assessment,
- Section 2.1.1(d)(vii) requests a line-by-line budget for how various aspects of the project are being funded. This requirement is onerous and unnecessary. Capital Power recommends removing this subsection.

Stakeholder Relations Requirements

- Capital Power believes that inclusion of these requirements is unnecessary and recommends removing Section 2.1.1(e). Stakeholder engagement is under the purview of the AUC and will be a consideration for projects to receive required regulatory approvals.

Project Delivery Experience Requirements

- Capital Power does not support Section 2.1.1(f) as it is currently written. While Capital Power believes that a general description of a proponent's project development and construction experience may be relevant pre-qualification criteria, it does not support inclusion of the comparable facilities requirement as written. Limiting capacity market participation in this manner – such that a proponent must demonstrate experience in each stage of Project Delivery with at least comparable facilities – will create an unnecessary barrier to entry and may limit competition. The AESO should consider removing or revising this requirement. Depending on the definition of comparable facility, even existing incumbents may be restricted from building new technologies.

Section 2.1.2 – Incremental Capacity Resources

- Please confirm that the intent of Section 2.1.2 is to provide capacity owners the option to “elect” to treat "Incremental Capacity Resources" as "New" or "Existing." If no, please explain.
- Capital Power wishes to comment further on specific investment conditions for qualifying as an incremental capacity resource (MW and \$ ranges and thresholds) once developed by the AESO.

Section 2.1.3 – Refurbished Capacity Resources

- Capital Power would like to better understand the AESO's rationale for this section, and the proposed requirements and potential investment thresholds required for a "Refurbished Capacity Resource" to prequalify as "New."
- Additionally, Capital Power believes that a clear definition of “Refurbished Capacity Resource” is required, and would like to better understand if and how the definition may apply to coal conversions.
- Capital Power wishes to comment further on the proposed requirements for refurbished resources once the additional details requested above have been provided.

Should you have any questions or wish to discuss the above comments please contact me at (780) 392-5294.

Regards,



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