

Stakeholder Comment Matrix – Apr. 9, 2020

Request for feedback on pricing framework review, session 2 material



Period of Comment: Apr. 9, 2020 through Apr. 23, 2020 Comments From: Heartland Generation Ltd. (“HGL”) Date: [2020/04/23]	Contact: [REDACTED] Phone: [REDACTED] Email: [REDACTED]
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The AESO is seeking comments from stakeholders on its approach to reviewing the pricing framework, and content from session 2.

	Questions	Stakeholder Comments
Price Cap Review		
1.	Do you have comments related to the AESO’s analysis on the response of interties to high prices?	The AESO’s analysis appears to be consistent with past observations of the quantity of imports in response to high pool prices in Alberta.
2.	Do you have comments related to the AESO’s analysis on the response of long lead time assets to high prices?	HGL agrees with the AESO that the current price cap does not impede the operation and response of long lead time assets (LLTA) during high-priced hours.
3.	The AESO provided analysis related to load that may respond to prices greater than \$1000/MWh. Do you have comments related to the approach of that analysis?	The AESO identified sites that were responsive to both price and ISO Tariff signals (12-CP) as a method to approximate load that may respond to price above \$1000/MWh. HGL commends the AESO’s creativity in using data that is currently accessible, but shares concerns on the limitations of this analysis. For example, this analysis does not identify loads that are elastic to real-time price signals above \$1000/MWh, but for other reasons are not responsive to the ISO Tariff coincident demand signals.

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4.	<p>Do you believe the amount of load the AESO indicated could respond to prices greater than \$1000/MWh is accurate? Please substantiate your response.</p>	<p>HGL cannot determine if the 40MW of demand response at a price greater than \$1000/MWh is accurate; the analysis provided by the AESO is at best indicative, but not definitive. At a high-level, the 40MW identified in this analysis is consistent with the 2009 AESO analysis of 20 MW unused price responsive load (Alberta Wholesale Market Price Cap Discussion Paper).</p>
5.	<p>If the price cap were increased, would loads be more incented to enter into energy market hedges? What would be the benefits and drawbacks to this?</p>	<p>In theory, any increase to the price cap would incent loads to enter into energy market hedges. The price cap necessarily impacts forward market efficiency: a price cap that is too low will lead to under-procurement by loads in the forward market. Since the forward market currently has low load participation, an increased price cap should improve forward market liquidity.</p>
6.	<p>What approach should the AESO use when determining the appropriate price cap level?</p> <p>Please substantiate your response.</p>	<p>The AESO has indicated that the goal of the pricing framework is to promote “efficient short-term market response.” With short-term efficiency in mind, the AESO should begin by determining the efficient price during firm load shed conditions (please see our response to question 7 for more details).</p> <p>The AESO should then undertake to estimate efficient prices leading up to firm load shed conditions once the merit order has been exhausted. In the Alberta context, these would be prices between \$999.99/MWh and the price cap (potentially the Value of Lost Load (VoLL), as we suggest in response to question 7). For example, several jurisdictions use an operating reserves demand curve (ORDC) to approximate these values, whereby the cost of drawing down operating reserves is tied to the expected value of lost load (i.e. LOLP x VoLL).</p>

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7.	<p>Do you believe market efficiencies could be gained by raising the level of the price cap? What are the tradeoffs?</p> <p>Please substantiate your response.</p>	<p>Potentially yes, HGL believes that market efficiencies may be gained by raising the level of the price cap. Price should be allowed to rise when supply is scarce so that voluntary load reduction can absorb increasing scarcity, thus minimizing the need for administrative involuntary rationing (i.e. firm load shedding). Conversely, it is also important to ensure that customers do not pay more than the electricity is worth to them. Numerous jurisdictions have therefore set their price caps in some relation to the average VoLL, which is almost certainly higher than our current price cap of \$1,000/MWh.</p>
8.	<p>Is there additional analysis the AESO should complete to review the efficiency of the price cap?</p>	<p>Assuming a desire to have the price cap reflect some estimate of VoLL, it would be necessary for the AESO to estimate VoLL or hire a consultant to complete a VoLL study.</p>
<p>Price Floor Review</p>		
9.	<p>The AESO provided analysis related to the volume and prices of potential renewable generation market based curtailment. Do you have comments related to the volumes or price levels described in that analysis?</p>	<p>HGL submits that the AESO's analysis could be improved by providing further information related to renewables. The AESO analysis and the presentation in the consultation session did not accurately reflect the various renewable attribute supports that existing and future renewable generators have, including approved Provincial offset protocols, emission performance credits, and out-of-province renewable energy credits. Depending on their specific characteristics and vintage, renewable generators have different levels of value for their renewable attributes. The AESO should further examine:</p> <ul style="list-style-type: none"> • which renewable generators are eligible to participate in each of the identified programs and which are still participating, • which offset protocols are still active,

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		<ul style="list-style-type: none"> the rules of participation in either protocol (e.g. when activity first started, crediting period), and the historic Electricity Grid Displacement Factors (EGDFs).
10.	<p>The AESO provided analysis related to the volume and prices of potential thermal generation market based curtailment. Do you have comments related to the volumes or price levels described in that analysis?</p>	<p>HGL does not have specific comments on how to improve the analysis for thermal generation’s market-based curtailment.</p>
11.	<p>Historically, the AESO has largely used import curtailments to manage supply surplus conditions. Is this an adequate approach to managing future supply surplus conditions?</p>	<p>Given the expected infrequency of supply surplus conditions, the practice of curtailing imports may continue to be an effective way to clear the market during supply surplus conditions.</p>
12.	<p>Do you believe that market efficiencies could be gained by establishing a lower price floor? What are the tradeoffs?</p> <p>Please substantiate your response.</p>	<p>Similar to increasing the price cap, lowering the price floor may be efficiency enhancing. However, the AESO’s own analysis indicates that this is a rare event which can be managed firstly by the AESO’s forward looking supply surplus report, and then through other protocols. Overall, caution should be exercised when contemplating changes to the price floor given the existence of subsidized resources. Please see our response to question 9.</p>
13.	<p>Is there additional analysis the AESO should complete to review the efficiency of the price floor?</p>	<p>Please see HGL’s responses to questions 9 – 12.</p>

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Stakeholder Engagement		
14.	<p>In the next stakeholder session, the AESO plans to present alternative price cap and floor design alternatives. In the final stakeholder session the AESO would like to hear directly from stakeholders or groups of stakeholders. The format will be dependent on the number of respondents. Would you be interested in presenting individually or as part of a group on any element of the pricing framework the AESO has communicated on during this stakeholder engagement?</p> <p>If yes, please indicate which topics you may be interested in discussing. Note, industry associations notwithstanding, the AESO would prefer to have stakeholders represent themselves rather than have third parties present on behalf of stakeholders.</p>	<p>HGL is not intending to put forth an alternative price cap/floor design at this time. Please see our response to question 16 below for our position on continuing these pricing framework consultations.</p>
15.	<p>Was the Zoom meeting approach used for this engagement effective?</p> <p>If no, please provide specific feedback on how the AESO can make these sessions more effective.</p>	<p>Yes, the Zoom meeting approach was effective.</p>
16.	<p>Please provide any other comments you have related to the pricing framework engagement.</p>	<p>HGL appreciates that the AESO has conducted this consultation in response to the Government of Alberta's direction letter following its decision to retain the energy-only market design. To date, general findings from this consultation indicate no pressing need to change the existing pricing framework (price cap, offer cap, and price floor).</p>

		<p>Accordingly, HGL encourages the AESO to revisit these topics as the electricity market evolves.</p> <p>Once clarity on the other aspects of the Government’s direction letter is set, and the sector is better able to focus post-COVID on the future of the grid, HGL expects the AESO to continue to discuss evolutionary changes to the market. This would be particularly important should material changes occur in the market that affect competition.</p>
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Thank you for your input. Please email your comments to: stakeholder.relations@aeso.ca.