

Stakeholder Comment Matrix – Feb. 12, 2020

Request for feedback on pricing framework review, session 1 material



Period of Comment: Feb. 12, 2020 through Feb. 28, 2020

Comments From: Heartland Generation Ltd.

Date: [2020/02/28]

Contact: [REDACTED]

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The AESO is seeking comments from stakeholders on its approach to reviewing the pricing framework, and content from session 1.

- 1. Please fill out the section above as indicated.*
- 2. Please respond to the questions below and provide your specific comments.*
- 3. Email your completed matrix to stakeholder.relations@aeso.ca by Feb. 28, 2020*
- 4. Stakeholder comments will be published to aeso.ca, in their original state, with personal or commercially sensitive information redacted, following Feb. 28, 2020. The AESO will not be responding directly to any submissions, but submission feedback will be considered for the final recommendation.*

	Questions	Stakeholder Comments
1.	At the session, the AESO outlined the objectives of the pricing framework, which includes ensuring both long term adequacy and ensuring efficient short-term market response. Do you have any comments on the objectives of the pricing framework?	<p>In general, Heartland Generation Ltd. (HGL) supports the AESO's objectives. In addition to considering long term adequacy and short-term market response, HGL encourages the AESO to explore price signals that encourage flexibility and response from both supply and demand. Market participants have made and continue to make investments based on competitive signals and the prevailing Energy-Only Market (EOM) framework.</p> <p>The AESO indicates that one objective is to "provide a mechanism for recovery of start-up and cycling costs." HGL understands that this objective, while mentioned as part of this consultation, will be more fully reviewed within the AESO's flexibility roadmap.</p>

	Questions	Stakeholder Comments
2.	<p>Please provide your comments on the AESO's description of Alberta's Energy-Only Market Pricing Framework, and the administrative price levels, in particular the purpose of the <u>offer cap</u>.</p> <p>Is there anything you would change or add to this description?</p>	<p>HGL agrees with the AESO's characterization of the offer cap. Specifically, that the offer cap allows suppliers to reflect their variable operating costs <u>and</u> allows for an opportunity to recover fixed costs over the long term.</p>
3.	<p>Please provide your comments on the AESO's description of Alberta's Energy-Only Market Pricing Framework, and the administrative price levels, in particular the purpose of the <u>price cap</u>.</p> <p>Is there anything you would change or add to this description?</p>	<p>HGL agrees with the AESO's description of the price cap, particularly that the pricing framework should allow for efficient market outcomes. The price cap also impacts forward market efficiency; for example, a price cap that is too low will lead to under-procurement in the forward market. The AESO should consider how the price cap can better reflect consumers' willingness to pay for electricity, in order to improve both wholesale and forward market efficiency.</p>
4.	<p>Please provide your comments on the AESO's description of Alberta's Energy-Only Market Pricing Framework, and the administrative price levels, in particular the purpose of the <u>price floor</u>.</p> <p>Is there anything you would change or add to this description?</p>	<p>The AESO has accurately described the purpose of the price floor.</p>
5.	<p>The AESO's forward looking resource adequacy assessment indicates that the energy only market with the existing offer cap will provide reasonable financial returns while meeting the supply adequacy requirements.</p> <p>Do you agree with the AESO's conclusions?</p> <p>If no, please describe your concerns.</p>	<p>HGL agrees that the existing EOM structure, with the current market power mitigation (MPM) framework, will provide adequate supply investment. The market is expected to continue to provide a reasonable opportunity for investors to recover costs, as evidenced by the announcements of over 2,000 MW of generation additions in the past year.</p> <p>HGL notes that the AESO's supporting scenarios are relatively narrow; however, due to the strength of the competitive wholesale electricity market, it is expected to succeed both over time and over a broader range of scenarios. HGL agrees with the AESO's conclusion that there is no evidence to support a "foreseeable long-term supply adequacy issue."</p> <p>The EOM only provides a single price signal to incent generation diversity and specific characteristics (i.e. ramping). HGL anticipates that ramping and signals to incent specific generation qualities will be discussed in the AESO's flexibility roadmap.</p>

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6.	<p>The AESO's historical revenue sufficiency assessment indicates that the energy only market with the existing offer cap has historically sent efficient and timely price signals to the market. Historically assets have been added when pricing signals indicated that profitable entry could occur.</p> <p>Do you agree with the AESO's conclusions? If no, please describe your concerns.</p>	<p>HGL agrees with the AESO's conclusions regarding historical revenue sufficiency. However, the AESO's analysis also shows how policy intervention and market design uncertainty can significantly impact market signals and cause the chilling of investment (e.g. 2016 LUEC and prices). The EOM has been most successful when changes are evolutionary and predictable. The AESO must be constantly aware that the rate and extent of regulatory changes can significantly impact investment signals.</p>
7.	<p>Are there foreseeable situations where asset variable costs would be greater than \$999.99/MWh? If yes, please describe the situation.</p>	<p>There are rare but foreseeable circumstances in which an input-limited generating asset may have a variable cost greater than \$999.99/MWh due to the increased value of the scarce resource. For example, the value of a hydro storage asset could be reflected by the opportunity cost of foregoing exporting energy to an accessible market. This was an approach that the AESO had explored during the capacity market consultation and may lead to variable cost of these assets in excess of \$999.99/MWh.</p>
8.	<p>The AESO has described the scope for this process, general agenda items and timing for upcoming stakeholder engagements, with the timing of the sessions aligned with the AESO's deliverable to the Government of Alberta Energy Minister.</p> <p>Please describe if you believe the scope is appropriate. If not, please describe/provide your rationale.</p>	<p>HGL supports the AESO's consultation approach to the pricing framework. Given the pending policy direction on market power mitigation, it is prudent to exclude it from the scope of this consultation. Therefore, the AESO should limit stakeholder speculation on different MPM frameworks and focus this consultation in the context of the current MPM framework.</p> <p>HGL notes that a number of items identified as out of scope have interlinkages with the offer/price caps and floor (e.g. unit commitment, day-ahead markets, co-optimization of ancillary services). Due to these interlinkages, Heartland would appreciate more clarity on how the AESO will scope its consultations to exclude these items from its 2020 consultations. If the AESO does intend to consider any of these items in 2020, they should be added to the AESO's Market-Related Initiatives Schedule.</p>

	Questions	Stakeholder Comments
9.	<p>Is the approach used for this engagement effective? If no, please provide specific feedback on how the AESO can make these sessions more constructive.</p>	<p>It is important for the AESO to consider the timing of when it releases presentation material for stakeholder consultations. Providing materials several days prior to the meeting would allow for more meaningful and informed participation by stakeholders.</p> <p>HGL also suggests that the AESO provide a comment period near the conclusion of this stakeholder process. Due to the inter-related nature of the topics of this engagement – e.g. offer cap, price cap, and price floor – it is important that stakeholders can comment on the culmination of the consultation record.</p>
10.	<p>Please provide any other comments you have related to the pricing framework engagement.</p>	<p>HGL would like to thank the AESO for the opportunity and continued engagement on the recommendation to the Government of Alberta regarding the state of the electricity generation market. HGL looks forward to fully participating in the stakeholder engagement process as outlined by the AESO.</p>

Thank you for your input. Please email your comments to: stakeholder.relations@aeso.ca.