

Capacity Auction Monitoring and Market Power Mitigation

Capacity Working Group

April 4, 2018

Market Power Mitigation: Feedback on Net Cone

- Stakeholder feedback
 - The default offer price cap should be at or closer to 100% of Net CONE.
- The AESO proposal for CMD 2
 - The default offer price cap will be 50% of net CONE.
- Rationale
 - Further analysis by AESO confirmed CMD1 assessment that 50% of Net CONE will allow most resources to recover going-forward cost.
 - 100% of Net CONE is the long run equilibrium and it's achieved by healthy competition. Market power mitigation at appropriate levels ensures this competition
 - Resources with costs greater than the cap can present cost data for specific assets and request exemptions from the cap

Market Power Mitigation: Feedback on Buyer Side Market Power Mitigation



- Stakeholder Feedback
 - Apply MOPR to mitigate buyer-side market power
- The AESO proposal for CMD 2
 - Not to implement buyer side market power mitigation.
 - However, if cost allocation method or UCAP determination for self-suppliers changes to be different than a net allocation, buyer side market power mitigation will be reviewed.
- Rationale
 - The cost allocation method directed by government reduces the risk that retailers will have an exposure to capacity prices.
 - UCAP is determined on a net basis for self suppliers, limiting the incentive for self supplier market power influences.

Market Power Mitigation: Feedback on Default Offer Price Threshold

- Stakeholder feedback
 - Threshold for market power screen should be a fixed MW or should be % of AIL.
- The AESO proposal for CMD 2
 - Threshold for market power screen may be determined by establishing the size of the portfolio under the control of a seller that has the ability to profitably raise capacity price by 10% when withholding 110 MW
 - The firms with market power will be identified during the auction qualification stage
 - Recall: CMD 1 established the market power firm as one holding 15% share of UCAP to be acquired through the capacity auction. The 15% threshold of UCAP share proposed in CMD1 was an estimation based on the preliminary demand curve and the preliminary estimation of UCAP of potential capacity sellers.

Supplier market power mitigation: Proposed framework

- Seller Side Market Power
 - Market power screen should be based on the ability of withholding at least **110** MW of capacity to profitably increase capacity clearing price by **10%** at **netCONE** level of the demand curve.
 - 10% represents a material change in the auction clearing price
 - 110MWs is representative of the size of the reference unit
 - The netCONE level on the demand curve represents the long term expected clearing price equilibrium of the market
 - Only capacity offers of the existing resources controlled by sellers who fail market power screen are subject to mitigation
 - The no-look offer cap threshold will be set at **50%** x Net CONE
 - Resources controlled by sellers who fail market power screen are allowed to request unit-specific offer cap with supporting documents

Market Power Mitigation: Other Details

- Market power mitigation measures will not be applied to the Rebalancing Auctions
 - The majority of capacity resources have been already procured and cleared in the Forward Capacity Auction
 - The ability of a capacity seller to profitably economically withhold capacity to raise the capacity price and the impact of the Rebalancing Auction market price on the overall procurement cost are limited.
- Unit-specific offer cap will be the net avoidable cost of the resource
 - Resources that do not receive a price that is at least as high as their avoidable costs would not operate economically

Capacity Market Monitoring and Reporting

- Each Auction- auction statistics: 10 business days after the auction
 - Total MW supply, total MW procured, ,market clearing price, MW new resources cleared, MW retired
- Each auction - Market Competitiveness: Three Months After the Auction
 - Competitiveness of the auction
 - The consistency of market results with market conditions
 - Potential changes to the market design to pursue for future auctions
 - Issues that should be more thoroughly investigated in triennial reviews.
- Triennial Performance Review
 - The accuracy of UCAP determination by resource type
 - Performance assessment
 - Monitoring and mitigation parameters