The Cogeneration Working Group (CWG), as represented by Power Advisory LLC, is pleased to offer comments based on the CWG's current understanding of the issues and policy intentions. The CWG is comprised of the following members: (1) TransCanada; (2) Suncor; (3) Cenovus; (4) Canadian Natural (CNRL); (5) Dow (6) Imperial; (7) MEG Energy; (8) Husky; (9) Nova Chemicals Corporation; (10) Syncrude; (11) Lafarge; and (12) InterPipeline. This submission represents the consensus view of the group. Individual member companies may also make independent submissions on some of these matters at appropriate times within the AESO's consultation process.

The CWG would first like to take this opportunity to commend the AESO on its CMD 1.0. Considerable progress towards a workable capacity market design has been achieved since the development of SAM 1.0 last year. While the CWG generally agrees with the content of the CMD 1.0, the details are extremely important and the CWG considers that some changes are required to ensure that the market design elements work together and achieve the desired goals.

The fundamental purpose of the capacity market is to maintain reliability by creating an attractive and sustainable investment climate for existing and new generation. To meet this goal transparent, stable, predictable and 'bankable' capacity payments, that are fully aligned with the penalty and incentive assessment, are essential. In fitting with this theme, the CWG proposes that:

- the unavailability adjustment creates a missing money problem due to the lack of incentives and that incentive payments are required to balance risk for capacity resources;
- the denominator of the non-performance adjustment formula should be a fixed number, such as 30 hours to ensure penalties are a reasonable and predictable amount;
- the target level of procurement should intersect the demand curve at 1.0 x net-CONE to avoid over procurement;
- the term "available" for both the penalties and the UCAP calculation should be defined as "available in real time";
- the RSI screen should be removed when the supply cushion drops to a specified level to allow for scarcity pricing to be maintained in the energy market;
- the capacity market power mitigation conduct test should be set at the greater of 1.0 x net-CONE or a fixed $/kW-year amount that reasonably allows participants to earn a return on and of capital; and
- a transitional process to the determination of UCAP and penalties is required given that historical behaviour is based on response to different market signals

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and an adjustment period to the new framework will reduce the risk of unintended consequences.

As the CWG has mentioned in previous comments, it is extremely important that the UCAP calculation, the capacity market modeling and demand curve design, and the penalty and incentive scheme work together to ensure that (i) capacity payments can be considered bankable by generators; (ii) the AESO procures the desired level of capacity; and (iii) generators are incentivized to meet and potentially exceed their capacity obligations. The CWG is concerned that the current penalty design will not achieve these objectives as the adjustment formulas are complex and can lead to unpredictable results. The CWG further maintains some concerns with the UCAP calculation and demand curve modeling. Please find a detailed explanation of the issue and proposed possible solutions in the comment matrix.

Lastly, the CWG would like to note its support for a number of other market design decisions such as the decisions not to implement SCUC and a BDAM in the energy market. As noted, the CWG is overall supportive of many of the AESO's decisions at a high level.

The CWG has appreciated the opportunity to participate in the AESO working groups and again commends the AESO on the consultation process and on a reasonable starting point with the CMD 1.0. The CWG looks forward to working with the AESO over the coming months to refine the details of the market design to ensure that everything works together and to ensure the design maintains the attractiveness of the Alberta market while ensuring fair, efficient and competitive outcomes

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