Alberta Capacity Market

Comprehensive Market Design (CMD) 1.0
Design Rationale Document

Section 9: Settlements and Credit Requirements

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9. Settlements and Credit Requirements

9.1 Capacity Market Statements

Input from Working Group Members and Industry Stakeholders through SAM 3.0:

- Topic was not discussed by the Procurement and Hedging working group through SAM 3.0.

AESO Rationale:

- The capacity market should also operate on a monthly billing cycle to align with the energy market.
- The capacity market should use metering data for the purposes of capacity settlement, as is done with the energy market.
- Aligning settlement of the two markets will reduce the administrative burden by leveraging existing processes.
- A decision as to whether the capacity market and energy market invoices will be consolidated will be made later, and will depend on the system implementation, and the energy and ancillary services roadmap.

9.2 Settlements Applicable to Capacity Sellers

- Capacity sellers will receive capacity payments for their cleared obligation in the year of their obligation. This is consistent with other capacity markets and Alberta's current energy market.
- In addition to the obligation payment, a capacity seller may receive a payment adjustment as described in Section 8.

9.3 Settlements Applicable for Customers

The general concepts used to allocate costs to customers are not available yet.

9.4 Capacity Market Net Settlement Instructions

Input from Procurement and Hedging Working Group Members and Industry Stakeholders through SAM 3.0:

- The Procurement and Hedging working group (working group) recommended that the capacity market design (CMD) should facilitate capacity market net settlement instructions (NSI). This recommendation was based on the following key assumptions:
  - Asset substitution is the tool to facilitate the management of capacity resource obligation risk, not NSI.
  - Implementation costs are not significant for NSI.
  - NSI for capacity may require changes to the *E*UA [section 19(1) and 19(2)].
- The working group determined that NSI would be a useful tool for capacity market consumers to hedge their exposure to variable capacity market prices year to year. The idea was that these resources could lock in a capacity volume with a specified supplier, and that volume would be subtracted from their capacity market exposure volumes (meter volumes). Capacity resources would be paid the capacity obligation less the volume of NSI, multiplied by the capacity market price.
- Industry feedback on SAM 3.0 indicated widespread support for having NSI included in the design, with the only reservation related to ensuring the cost of implementing would not outweigh the benefits.

Comparison to SAM 3.0 Position

- The CMD does not adopt the SAM 3.0 recommendation that NSI should be facilitated. The CMD provides that NSI will not be facilitated.

AESO Rationale:

- Not to provide NSI.
- Having NSI as proposed by the working group and in SAM 3.0 works well in the energy market because the price paid for a MW of energy is equal to the price a consumer will pay for a MW of energy in the same time period. Given the current thinking on cost allocation in the capacity market, the AESO did not think this would be the same for the capacity market. This is because the current thinking by those influencing the policy on cost allocation suggests capacity cost will be allocated to load based on rates set within a capacity market tariff. This was not considered in the working group's initial assumptions when NSI was discussed.
- A volume-based NSI approach no longer works because the price paid for capacity no longer equals the price paid by load in that same time period. Facilitating NSIs will cause discrepancy between the amount paid to capacity providers and the amount collected from capacity consumers. This does not eliminate the ability for counterparties to enter into independent financial hedges with each other; however, these will not be registered with the AESO and accounted for in capacity market settlement.

9.5 Capacity Market Credit Requirements for Existing Capacity Resources

Will capacity resources have to provide financial security to cover the risks associated with the payment adjustment mechanism?

Comparison with other Markets:

- Capacity resources do not have to provide financial security (credit) in most other capacity markets to cover penalty risk provided the resource will receive a positive capacity payment.

In Alberta:

- The assessment of availability is performed at the end of the delivery period and looks back at the entire 12 months.

AESO Rationale:

- To minimize the credit risk, the AESO settlement will only claw back up to 100% of the capacity market payment on any one statement until the balance of payment adjustment mechanism is paid.

9.6 Measurement and Verification of Capacity Resources

Input from Working Group and Industry Stakeholders through SAM 3.0:

- The Eligibility working group briefly discussed the measurement and verification of capacity delivery and challenges with using the current Energy Trading System (ETS) system which would have implications on the calculation of UCAP for resources in the early stages of the capacity market.
- The Eligibility working group also discussed the application and use of the Generating Availability Data System (GADS) as a measurement and verification system; however, no recommendations or directional alignment were established by the working group.
- Industry stakeholders have not provided comments on measurement and verification systems.

Comparison to SAM 3.0 Position

- The CMD recommends not using GADS, but rather using the existing data collected for the existing energy market.

AESO Rationale:

- Capacity will be measured based on historical observed availability factor or capacity factor in the obligation period depending on the type of capacity resource being settled.
- See section 2.3 for the rationale for using availability and capacity factors.

9.7 Settlement and Credit Requirements Assessed Against the Capacity Market Design Criteria

- The CMD should provide mechanisms for consumers to hedge the cost of capacity if and where appropriate. It was determined that facilitating capacity market NSI was not an appropriate tool for hedging the costs of capacity. Financial hedges may still be developed by market participants.
- Settlement design ensured the capacity market is compatible with other components of the electricity framework, such as load settlement and retail customer choice, and should be robust and adaptable to different government policy initiatives related to the electricity sector.