

Recommendation for Treatment of Refurbished and Incremental Capacity

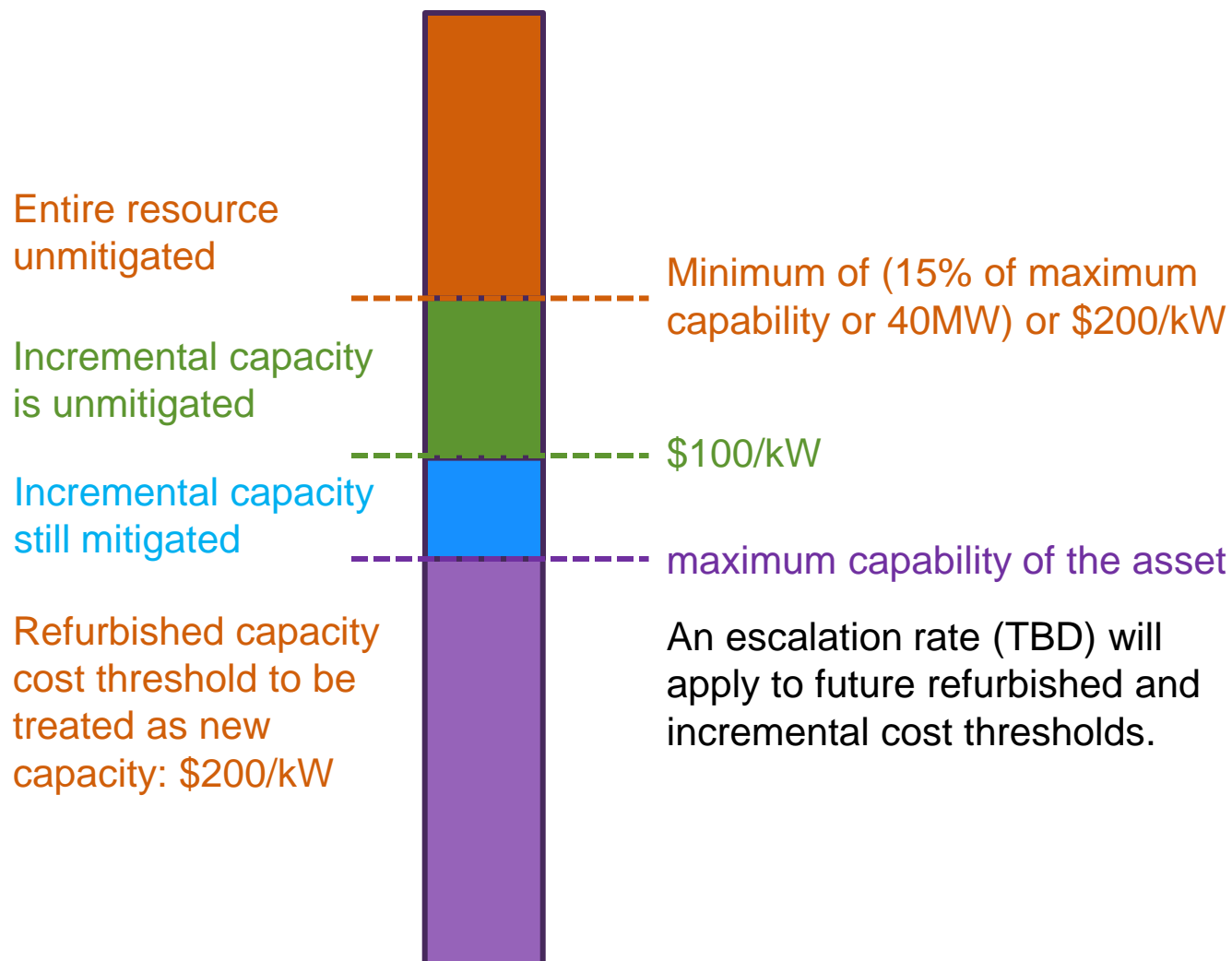
Design Working Group

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Treatment of New v. Existing Resources

- Market power mitigation occurs if a capacity supplier has a portfolio of capacity resources where the total UCAP exceeds market power screen threshold
- If the capacity supplier is mitigated:
 - their new resources will not be subject to market power mitigation
 - their existing resources would be mitigated to their *resource specific capacity offer cap* or the *default offer cap*
- Refurbished assets are existing assets that make significant capital investments to life-extend, repower with a different fuel, upgrade, etc.
- Incremental capacity over and above the existing capacity is considered new
- Thresholds were developed to identify refurbished and incremental capacity in the prequalification process
 - Units meeting the thresholds will be classified as new

Threshold Recommendation Summary



Prequalification Application

In addition to a project plan with development milestones all prequalification applications must contain:

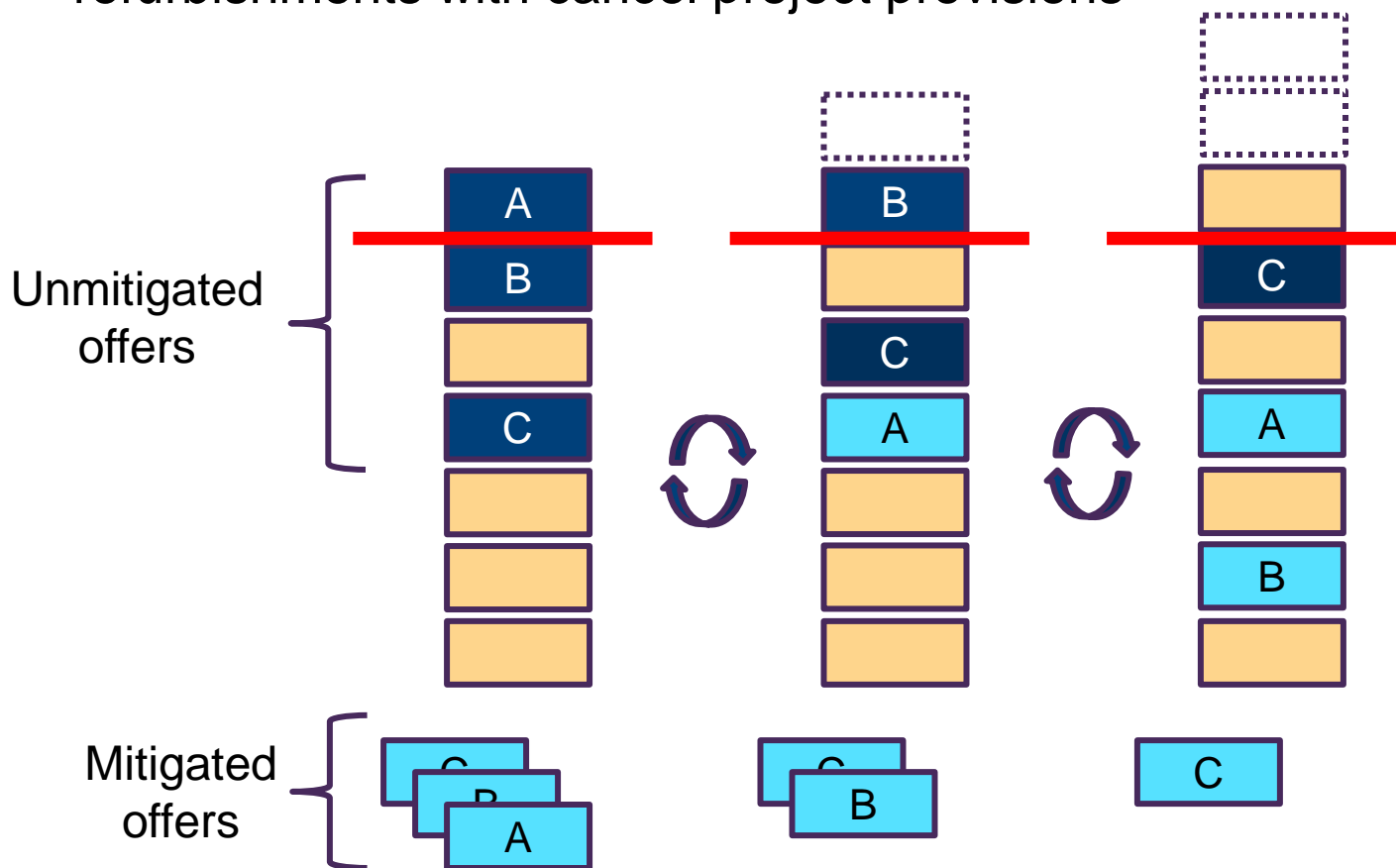
- Project Type:
 - Brand New
 - Incremental capacity
 - Refurbished capacity
- Projected UCAP:
 - UCAP value
 - Rationale for UCAP
- Offer approach:
 - Delist if don't clear in auction
 - Don't delist existing asset and continue to operate as before (incremental or refurbished project types)
 - Refurbished project type must provide an additional price at or below the mitigated price to use in the auction if the unmitigated offer fails to clear.

Don't Delist Provision for Refurbishment

- A participant may submit a prequalification application that indicates that the participant will not delist if the participant does not receive at least its unmitigated offer price in the auction.
 - The unmitigated offer price is expected to reflect the price the participant needs to commit to the refurbishment
- Choosing this provision requires the participant to declare a mitigated offer similar to the one the participant would have used had it not submitted the refurbishment prequalification application.
- In the event that the unmitigated offer price is too high and fails to clear the AESO will re-run the clearing engine using the asset's mitigated offer.

Iterative Clearing Process

- If there are multiple refurbishments in a year the AESO will continue to re-run the clearing engine until a solution is found.
- In the example below 3 participants (A, B and C) submitted refurbishments with cancel project provisions



Treatment of Un-cleared New Capacity

Assuming the capacity participants offers are mitigated in the capacity market:

- Brand new and incremental capacity assets that fail to receive an obligation and do not delist – remain unmitigated but have a “must offer” requirement for future auctions
- Refurbishments that fail to receive an obligation and do not delist are either:
 - mitigated for all future auctions
 - unmitigated for 1 more auction and if the asset fails to clear in that auction they must permanently delist
 - If a participant submits another prequalification application for refurbishment with a “don’t delist provision” selected the application will be rejected.
 - This removes the free option to continually have an “opportunistic” higher priced offer in the supply stack while mitigated

Thank you