

## Stakeholder Comment Matrix – October 8, 2019

### Request for input on market power mitigation



**Period of Comment:** October 8, 2019 through October 29, 2019

**Comments From:** Suncor Energy Inc.

**Date:** 2019/10/29

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*The AESO is seeking comments from stakeholders on market power and market power mitigation in Alberta's energy and ancillary services markets.*

	Questions	Stakeholder Comments
11.	Please describe your role in the Alberta electricity market.	Suncor thanks the AESO for the opportunity to provide comments. In order to provide better context for subsequent responses, Suncor has reordered the questions. For ease of reference the original numbering was maintained.
	a. Are you a load, generator, both, neither (e.g. developer, storage, interested party)	Suncor is a large industrial consumer that has invested and continues to invest in cogeneration and renewable generation.
	b. What is the approximate size of your load and/or generation?	Suncor has a peak demand of approximately 650 MW and controls approximately 1,150 MW of generation. In addition, Suncor has currently another approximately 800 MW of generation under construction.
	c. Do you participate in the energy market, AS market, both?	Suncor participates in the energy and Ancillary Services markets.
	d. Do you forward hedge? If so, is it physically, financially, both? What percentage of your portfolio is hedged?	A significant portion of Suncor's generation is on-site, <i>i.e.</i> provides a physical hedge for Suncor's power demand. Beyond that, Suncor utilizes all available products to manage and optimize its market exposure.

<p>7.</p>	<p>What criteria should be considered in evaluating Alberta's mitigation framework? Would you rank one or some of these criteria more highly than others?</p>	<p>In general, allowing the existing market to continue to operate as intended, and avoiding yet more regulatory interference is the best way to restore investor confidence in the Alberta Electricity Market.</p> <p>The most important criterion is therefore stability. As stated by Minister Savage: "Because of the clear need for certainty and stability, I am directing the AESO to take a measured and thoughtful pace to examining if any changes to the existing energy-only market are needed[...]"<sup>1</sup></p> <p>Suncor recommends against trying to "fix" a market that is not broken. If something were preventing the market from operating in a fair, efficient, openly competitive manner, any changes should be carefully considered, targeted and specific to the issue, rather than implementing a widespread overhaul that potentially leads to unintended consequences for all stakeholders from generators to households.</p> <p>The second criterion is consistency. The Government of Alberta has decided it is in the public interest to "return to the existing energy-only market." If there happens to be a valid concern around market power that should be addressed, any solution should fit within the existing market structure, <i>i.e.</i> make primarily use of fair and open competition and avoid prescriptive rules and regulations.</p>
<p>8.</p>	<p>Are there unique characteristics of Alberta's electricity market that may impact whether the market power mitigation approaches used in other jurisdictions are suitable for Alberta? If so, please describe them.</p>	<p>Suncor believes there are unique characteristics both to Alberta's physical system and to Alberta's market design that limit the ability to import market solutions from other jurisdictions.</p> <p>The high load factor and the lack of a clearly defined peak reliability period create a unique dynamic with regard to the need for and distribution of high prices.</p> <p>While (few) other energy-only markets exist, Alberta's market is arguably the most free market that is burdened the least with regulatory interference and attempts at central planning. When considering importing solutions from other jurisdictions this difference in outlook needs be recognized. Suncor cautions against the adoption of administrative solutions from other jurisdictions out of a concern that these might cause ripple effects that drive Alberta away from a free and open market.</p> <p>The current design has served Albertans and investors well for close to two decades. Importing design features from dissimilar market constructs introduces a level of risk that is not palatable to existing and future investors, as well as large and small consumers, from industrials to households. Suncor urges policy makers to avoid unnecessary changes to Alberta's electricity market that could have unintended adverse consequence, the costs of which would be borne by Albertans.</p>
<p>9.</p>	<p>What do you think the appropriate role for the AESO is in Alberta's mitigation framework?</p>	<p>In light of the above, recognizing that the Alberta market structure is based on fair and open competition and not on administration and control, the AESO's role should be to enable and foster competition.</p> <ul style="list-style-type: none"> <li>• The AESO should level the playing field by ensuring that rules and rates in conjunction do not unfairly and</li> </ul>

<sup>1</sup> <https://www.aeso.ca/assets/Uploads/Alberta-Energy-Direction-to-AESO-07-25-19.pdf>

		<p>unnecessarily advantage certain participants over others.</p> <ul style="list-style-type: none"> <li>• The AESO should maintain accurate databases of all relevant market data.</li> <li>• The AESO should reduce information asymmetry and foster competitive conduct by releasing relevant market data in a timely and transparent fashion, e.g. by reinstating and improving the historic trading report (HTR).</li> <li>• The AESO should, wherever possible, use market solutions compared to prescriptive rules.</li> <li>• The AESO should analyze existing rules and rates in order to identify level playing field concerns and potential barriers to entry and improve the rules and rates where necessary.</li> </ul>
10.	<p>What do you think the appropriate role for the MSA is in Alberta's mitigation framework?</p>	<p>The MSA's role within the mitigation framework should be limited in monitoring the market and investigating potential instances of conduct intended to reduce competition in the market. The MSA's role is not to design or redesign the electricity market. A board should provide oversight and ensure consistency in enforcement to help ensure a clear, consistent, and transparent approach.</p>
1.	<p>What has been effective in Alberta's historical approach to market power mitigation in the energy-only market, and what could be improved?</p>	<p>The free and open wholesale electricity market has been a success and Suncor cautions against trying to make "improvements" that may ultimately carry unintended negative consequences. The following is a quote from the MSA's 2012 State of the Market report:<sup>2</sup></p> <p><b>KEY POINTS:</b></p> <p>The Alberta wholesale electricity market is effectively competitive. This conclusion rests on the assessment that over the medium term the market delivers a wholesale price of electricity that is no higher than necessary to secure the reliable supply of electricity to consumers now and in the future. The finding is consistent with the legislative standard of fair, efficient and openly competitive.</p> <p>Wholesale price volatility and price polarity (periods of low prices interspersed with shorter periods of high prices) are an expected outcome in an electricity market such as Alberta's and consistent with effective competition. In fact, these price signals promote innovation and economic efficiency.</p> <p>Like any market, factors such as market power and barriers to entry can shape the competitive environment in important ways and require the continuing attention of the Market Surveillance Administrator and policy makers. However, there is no need for substantive change to the policy framework, or the Market Surveillance Administrator's existing enforcement framework. In fact, policy continuity and stability has been an important foundation for the success of the</p>

<sup>2</sup> <https://resources.albertamsa.ca/uploads/pdf/Archive/2012/SOTM%20Final%20Report%2020130104.pdf>

		<p>Alberta market and will continue to be so in the future.</p> <p>To Suncor's knowledge there have been no significant changes in the market that would now invalidate the MSA's conclusions or that would justify, let alone necessitate, a change in the market power mitigation framework. And just like changes to the market power mitigation framework are not required, caution should be exercised around changing <u>any</u> element of the market. For example, any significant change in the price and/or offer cap would have a significant ripple effect on the competitive dynamic of the market and, in Suncor's view, would undermine the long term sustainability of the market. Like the MSA stated in 2012 and Minister Savage confirmed in July, policy continuity and stability has been an important foundation for the success of the Alberta market and will continue to be so in the future.</p> <p>Arguably the only significant concern in the wholesale market has been the distortion caused by the Balancing Pool, which, through its structure and funding, was not on a level playing field with other participants and whose participation undermined fair and open competition. It can be seen as a cautionary tale against agency interference in the marketplace.</p>
2.	<p>Do you expect the historical approach to market power mitigation in the energy-only market (e.g. OBEG, ex-post monitoring, must offer, 30% offer control limit, FEOC Regulation) will be effective on a go-forward basis?</p> <p>If yes, please explain your rationale. If no, please explain your rationale and changes required.</p>	<p>There is no indication as to why the historical approach might no longer be sufficient. Any discussion around the potential need for changes needs to start with an explicit concern that might need to be addressed. So far Suncor is not aware of any valid concern.</p> <p>Suncor is aware of a concern around market shares changing after the end of the PPAs. However, in 2008/2009 the Department of Energy explicitly addressed market share when it undertook significant consultation regarding further clarification of section 6 of the <i>Electric Utilities Act</i>, which then resulted in the release of the <i>Fair, Efficient and Open Competition Regulation</i> (FEOC Regulation). Based on Suncor's analysis, the end of the PPAs will not result in the breach of the threshold set in the FEOC Regulation and as such the concern about the end of the PPAs is a theoretical concern that has already been sufficiently addressed in consultation.</p>
3.	<p>If deemed that additional mitigation measures are required in the energy-only market, please indicate whether they should be applied ex-ante (mitigation occurs prior to prices being set) or ex-post (mitigation occurs following market prices being set).</p>	<p>If any changes were to be contemplated, they should be consistent with Alberta's overall market philosophy, where fair and open competition limits potential abuse of market power and results in long run efficient outcomes. If any additional mitigation measures were deemed to be necessary to address a specific concern, the solution should be tailored to the specific problem. At this point Suncor can't foresee circumstances where administrative ex-ante market mitigation rules would be appropriate in Alberta.</p>
4.	<p>What has been effective in Alberta's historical approach to market power mitigation in the operating reserves market, and what could be improved?</p>	<p>While Suncor is not aware of a similar analysis to the State of the Market Report for the operating reserves market, Suncor is similarly not aware of any concerns or issues that have been brought up in recent years.</p> <p>The only significant concern in the history of the operating reserves market that Suncor is aware of arose from outside (regulatory) interference. It was the structure of the Hydro PPA that created poor incentives which interfered with normal market dynamics. Since this has been addressed, the operating reserves</p>

		<p>market has been effectively competitive.</p> <p>Suncor cautions against trying to make “improvements” to the operating reserves market that result in unintended negative consequences. There have been no significant changes in the market that would justify, let alone necessitate, a change in the market power mitigation framework for the operating reserve market.</p>
5.	<p>Do you expect the historical approach to market power mitigation in the operating reserves market (e.g. FEOC regulation, indexed to pool price) will be effective on a go-forward basis?</p> <p>If yes, please explain your rationale. If no, please explain your rationale and changes required.</p>	<p>There has been no indication as to why the historical approach might no longer be sufficient. Any discussion around the potential need for changes needs to start with an explicit concern that might need to be addressed. So far Suncor is not aware of any valid concern.</p>
6.	<p>If deemed that additional mitigation measures are required in the operating reserves market, please indicate whether they should be applied ex-ante (mitigation occurs prior to prices being set) or ex-post (mitigation occurs following market prices being set).</p>	<p>Suncor submits that if any changes were to be contemplated, they should be consistent with Alberta’s overall market philosophy, where an efficient market construct combined with clear rules and fair and open competition limits the abuse of market power and results in long run efficient outcomes. If any additional mitigation measures were deemed to be necessary to address a specific concern the solution should be tailored to the specific problem. At this point Suncor can’t foresee circumstances where administrative ex-ante market mitigation rules would be appropriate in Alberta.</p>

Thank you for your input. Please email your comments to: [stakeholder.relations@aeso.ca](mailto:stakeholder.relations@aeso.ca).