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Miranda Keating Erickson
Vice President Markets
Alberta Electric System Operator
2500, 330 – 5th Avenue SW
Calgary, AB T2P 0L4

RE: Comprehensive Market Design ("CMD") 4.0

Dear Miranda,

Suncor Energy Inc. ("Suncor:) appreciates the opportunity to provide the AESO with feedback on CMD 4.0. Suncor thanks the AESO for the time and effort that it has spent during the last year developing a new market framework for Alberta. Further, Suncor appreciates having been able to participate in the consultation, on its own and as a member of the Co-generation Working Group ("CWG").

Unfortunately, due to the abbreviated timelines not all topics ended up being discussed in as much depth as Suncor believes is necessary. Suncor maintains its previously expressed positions to the extent they are pertinent to CMD 4.0, but would like to focus in this letter on its most critical concerns.

Performance Framework

The performance framework is at the core of the capacity market; it ultimately defines the capacity product. Suncor's concern with the proposed framework is twofold:

1. In most circumstances, it results in free money to unreliable capacity market participants. In a normal year with little to no emergency hours,[1] non-delivery results in only about half of the supplier's capacity revenue being clawed back. This incentivizes suppliers to overstate capacity and doesn't properly encourage the development and on-going maintenance of reliable generation.

2. It creates a significant and unmanageable risk by overly penalizing suppliers for rare and unpredictable events. Under the CMD 4.0 proposal a mere 24 hours can eradicate an entire year of capacity payments if the supplier happens to be unavailable (even for carefully planned and broadly communicated preventative maintenance) during unforeseeable emergency hours, regardless if its availability has helped avoid emergency conditions for the rest of the year.

The combination of these two concerns creates a high risk environment without any apparent positive incentives. The risks are further exacerbated by the small number of availability assessment hours[2] and an incentive scheme that instead of focusing on proper positive delivery incentives, focuses on revenue neutrality between all penalties and incentives.

[1] In the *unmanaged* energy-only market the historical average number of emergency hours was less than 13. In the more managed future market this number should be (significantly) lower.
[2] Historically, contributions to fixed cost recovery were earned in over 1,000 hours per year; the CMD 4.0 proposal concentrates the capacity payment in less than a quarter of this time (250 hours).

Suncor submits that the performance framework proposal that was provided in conjunction with the CWG would be a viable alternative.

Treatment of Sites with On-Site Generation

One of the fundamental elements of the existing energy-only market was the ability for industrial sites with on-site generation to participate both with their net load and their net generation on a non-discriminatory basis. This principle supported significant economic growth in Alberta while at the same time providing the Alberta grid with cheap, reliable and low-emission electricity. CMD 4.0 creates two concerns for sites that have chosen to invest in on-site generation:

1. Despite their being no causal relationship between the dispatch of discretionary blocks of on-site generation and on-site demand, CMD 4.0 includes a complex regression approach[3] that seems to reward/punish on-site generators for random correlation between on-site generation and load. Unlike for other thermal generators, the regression approach seemingly adjusts un-dispatched generation from on-site generators (*e.g.* from peak-firing) based on independent fluctuations of on-site demand. Suncor reiterates its offer to help the AESO understand the nature of on-site generation and why un-dispatched generation of these assets provides exactly the same value as un-dispatched generation from other thermal assets.

2. Suncor continues to be worried about comments from the AESO in the rationale document for CMD 4.0 that "there are concerns related to self-supply". Suncor is not clear on what the issue associated with self-supply[4] actually is. Specific stakeholder concerns, if there are any, should be properly articulated rather than vaguely referenced, so that they can be responded to. The one reference to self-supply in the rationale document utilizes an example that Suncor does not view as meaningful, given its extreme over simplification. Suncor is aware that the cost allocation to loads discussion is deferred until later and looks forward to working with the AESO to alleviate any concerns.

In Suncor's view, both distorting the generation UCAP for industrial sites with on-site generation and penalizing load at those sites would severely tilt the playing field in Alberta, counter to the principle of a fair, efficient and openly competitive market. It is important that the final market design and the final cost allocation scheme do not unduly discriminate against on-site generation or load.

Please feel free to contact me, if you have any questions, or if you require any further clarification.

Sincerely,

Suncor Energy Inc.

cc: Horst Klinkenborg
Senior Regulatory Advisor

[3] CMD 4.0 was the first time Suncor has seen the regression proposal and as such has not yet had the time to fully understand and analyze its implications. All comments in this regard are therefore based on preliminary observations.

[4] The use of the term "self-supply" to describe sites with on-site generation further confuses the issue.