Stakeholder Comment Matrix – March 14, 2019

Tariff Design for Capacity Market and Bulk and Regional Transmission Cost Allocation – Industry Update (March 13, 2019)

Period of Comment:	March 14, 2019	through	April 10, 2019	**Contact:**	Marcy Cochlan
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Please provide comments relating to the topics listed below in the corresponding box. For convenience, references to slides from the March 13 Industry Update where each topic was discussed are included in the table below. Please include any views about whether the content presented sufficiently addressed the topic, and provide any proposed alternative or additional approaches that should be considered.

Slides	Topic	Stakeholder comments
Tariff Design Consultation Process		
5-11	AESO tariff design consultation approach, scope, and process.	TransAlta agrees with the general scope of the capacity market and bulk and regional cost allocation design consultation. We also understand that AESO selected a working group approach and chose the members on advisory group and working group to facilitate an efficient process. However, given the limited participation that broader industry has had into this process, we believe there is a strong need to ensure that the process steps provide for opportunities such as the meeting held on March 13, 2019 to solicit stakeholder views. TransAlta requests that another opportunity for broad industry consultation should be provided prior to finalizing recommendations on the cost allocation design and the AESO's future rates filing.
Capacity Market Cost Allocation Tariff Development Update		
15-20	Requirements of *Capacity Market Regulation*	TransAlta agrees that the requirements of the *Capacity Market Regulation* have been accurately captured. However, beyond prescribing the "weighted energy method" the *Capacity Market Regulation* has left the AESO with broad discretion to develop an approach that fairly allocates capacity costs to customers. This discretion must be used judiciously. The AESO's determination on the time block and weighting has the potential to shift costs amongst customer classes dramatically that could result in certain customer groups to bearing a higher cost share than other customer groups. We also believe that it is important for the AESO to consider that the capacity product is procured to ensure reliability in all hours (not just a small subset of hours), and all customers receive those benefits and should share in the cost of securing system reliability. A capacity cost allocation design that allows consumers to avoid capacity costs results in free riding and unfair cross-subsidization rather than promoting efficiency enhancing consumer behavior.
21-22	Resource adequacy model and unserved energy	We are concerned that the lens the AESO and working group is viewing the cost allocation design is skewed towards drawing conclusions about "incentives for economic efficiency" from resource adequacy modeling that does not actually measure economic efficiency. As rightfully indicated

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		by the AESO, the resource adequacy model is not designed to measure impacts to expected unserved energy on an hourly basis and therefore great caution must be taken from drawing strong conclusions based on its hourly data forecasts. We are wary of using RAM to reliably measure how hourly changes in consumption impact expected unserved energy or gross minimum procurement volumes particularly when these changes appear to be less than a percentage difference in total gross minimum procurement volume. In this regard, the use of RAM in this way can lead to false conclusions and a rate design that is unfair in how it allocates costs and/or provides poor incentives at cross-purposes with real economic efficiency.
22	Distribution of expected unserved energy throughout the obligation period	We understand the distributions shown in page 22 but have some concerns about how helpful this might be creating incentives for loads. More specifically, it was noted in the capacity market working groups that the historical pattern of expected unserved energy were largely driven by supply outages. If supply responds to the implementation of the capacity market by shifting outages to other periods (lower EUE periods) and loads also shift their consumption to the same period, then rather than lowering expected unserved energy the time block and rate design could actually increase the probability of expected unserved energy and/or just result in a different period becoming the new high expected unserved energy period. This exercise may be more appropriate in a jurisdiction with a low load factor and demand driven expected unserved energy issues -- although we are unaware of this type of analysis being used to design capacity cost allocation rates. As noted by the AESO, Alberta's electric system has a high load factor and supply driven expected unserved energy issues. The AESO needs to carefully consider these unique aspects of the Alberta system before it makes any strong conclusions about using resource adequacy modeling distributions of expected unserved energy for the purposes of rate design.
23-27	Bookend scenario analysis	TransAlta disagrees with the assumptions that were made about load changes in establishing the bookends of a narrow and wide on-peaks. We question whether it is reasonable to assume that loads can respond in 245 hours in the hours selected to be the on-peak range. A historical analysis of load response should be considered to test this assumption. We also question whether it is reasonable to assume that loads would respond by shifting their consumption from on-peak to off-peak hours – it seems highly questionable that loads would change their consumption in the early evening to the middle of the night (for industrial customers this could require an addition of a night shift which would trade off labour costs versus electricity cost). At a minimum, we would ask that a scenario be run to measure a load response that only shifted consumption from on-peak to mid-peak hours. Additionally, we believe that further analysis that quantifies how the consumption in the on-peak, mid-peak and off-peak impact the procurement volume could be helpful in establishing a fair allocation of cost. For example, the amount of capacity to meet the off-peak (the lowest level of demand) would be equally divided between all blocks, the amount of incremental capacity to meet mid-peak would be equally divided by mid-peak and on-peak blocks (presumably mid-peak is lower than on-peak load), and the amount of capacity to meet on-peak would be all allocated to that block. This type of analysis would help inform a design that fairly allocates capacity costs by each block's contribution to the capacity requirement rather than a design that attempts to incentivize a change a behavior. We have concerns that the focus thus far has been on the latter type of design and that may lead to a significantly different design with dramatically different weightings between blocks than one that distributes costs based on assessment of contribution.
25	Observations on bookend analysis results	TransAlta is concerned that the conclusions from the narrow and wide peak bookend analysis are based mostly on the assumptions that were made in the analysis that they are not helpful. We note that the reduction and increase to minimum procurement volumes seem so low that they

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		may just be forecast error related to interpreting probabilistic results. We ask that other information be provided that could help us understand whether the observed differences have any statistical significance.
26	Objectives for cost allocation rate design	We generally agree with the objectives for cost allocation rate design. We would further suggest that any rate design that significantly weights time block differently ought to be based on analysis that has a strong level of confidence. Furthermore, testing should be done to measure how the proposed design would impact different customer classes (e.g. take the load profiles for different customer classes and quantify the energy and capacity costs that would be allocated to those customers). This analysis should include historical to forecast comparisons to show costs to each customer class under the energy only market design and forecasts under the capacity market design. It is imperative to ensure that each class is only charged their fair share and that inter-customer subsidies are avoided.
28-30	Development of 400-hr on-peak time block	We have not seen enough information about the fair allocation of costs based on contributions to reliability to know if the development of a 400-hour time block is the right choice. While we agree that there should be incentives built into the design, we are not convinced that the need for incentives should be traded off against a fair allocation of costs.
31-32	Considerations for weights of time blocks	We believe it is premature to conclude that the off-peak block should receive a zero weighting. We do however agree that the off-peak block should have the lowest weighting given the historical data on supply cushion and emergency energy alert events.
33-34	Potential rate ranges	As stated above, we believe the AESO should be very cautious about proposing a design with a high and significantly different weightings. Such designs are only justified if there is strong confidence that they incent meaningful changes in behavior because they carry the greatest risk of inter-customer class cross subsidy.
34	Appropriate range of weight ratios to consider	The AESO should consider moderate weightings to ratios until more information under the capacity market is gathered. We believe that it is worthwhile for the AESO to spend the time to establish its analytical toolkit and set up processes to regularly review the rate design with the mind to adjust the weightings using real-world data. It is premature to assume that an aggressive rate design should be adopted at this time.
35-38	Additional considerations for rates	The AESO should be cautious of a rate design that might create large deferral account balances that need to be trued up. We also suggest that the AESO consider impacts to residential customer billing systems given that most if not all of those customers lack the metering and billing data to facilitate time of use consumption measurement as contemplated in the weighted energy method.
39-43	Terms and conditions considerations	Curtailment requirements should be considered as an alternative to financial penalties to self-supply sites. The concept of assessing financial penalties in the capacity market working groups was considered as the best alternative to ensure any issues with free-riding and self-supply were avoided. However, now that the AESO has determined that they cannot ensure compliance with financial penalties, the curtailment requirement or capacity restrictions is the only remaining alternative to address these concerns.
40	Regulation does not permit penalties or incentives	See comments above.
42	“Gross up” of POD metered volumes to adjust for distributed generation	No comment at this time.

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43	Preferred approach for deferral account true-up	TransAlta recommends that the preferred approach should try to minimize the need for deferral account true-ups in the first place. This is likely to be better achieved by a design that does not have significant differences in weightings.
44	Allocation of capacity market costs to transmission losses	We look forward to discussing in further detail the mechanics of the proposed cost allocation rate.
45	Capacity market cost allocation remaining work	We ask the AESO consider the additional analysis that we have described in this comment matrix (such as contribution to reliability requirement by time block). We also ask that the AESO schedule another broad consultation session prior to finalizing its recommended cost allocation methodology.
Update on Bulk and Regional Transmission Cost Allocation		
48-51	Bulk and regional transmission cost allocation current work, future work, and next steps	We thank the AESO for the update but note that these work on the transmission cost allocation still appears to be in the very early stages. As such, we have very little that we can comment on.
Additional Comments		
—	Please add any additional comments related to tariff design for allocating capacity market and bulk and regional transmission costs should be considered.	We note that the capacity cost rate design was discussed as being applied to export opportunity service in the AESO's presentation. However, to date, we have not seen any discussion in the capacity cost allocation working group materials about exports. We disagree that exports should be allocated capacity costs in that exports are delivered to other jurisdiction when there is an excess of capacity in Alberta. Exports are cut in any system supply shortfall event and therefore cannot have a direct impact on system reliability in Alberta. In this respect, exports cannot and do not have an impact on the amount of capacity that is procured by Alberta to meet its reliability requirement. It is false to equate exports with demand service or to treat exports in the same manner as internal load. A design that forces capacity costs on exports will increase the cost of exporting energy with no reliability benefit. In fact, charging capacity costs to exports will only serve to make exports less competitive which increases the costs that export resources need to recover from Alberta load consumers. Exports should be evaluated in terms of their contribution to Alberta's capacity requirement and should only be allocated costs to the extent that they impact the amount of capacity that must be procured in Alberta.