January 10, 2017

Mr. David Erickson  
President and Chief Executive Officer  
Alberta Electric System Operator  
david.erickson@aeso.ca

Dear Mr. Erickson:

This letter will serve to confirm government’s request to the Alberta Electric System Operator (AESO) in relation to Alberta’s transition to a new capacity market framework, which was announced by government on November 23, 2016.

As you are aware, government has directed Alberta Energy to lead the transition of Alberta’s electricity system to a lower carbon system. This work includes establishing the legislative framework that enables the implementation and operation of a capacity market, including the principles under which the framework will function. Alberta Energy will seek advice from all electricity-related agencies, including the AESO, as well as engage Alberta’s electricity-sector participants and stakeholders on the legislative framework. As we develop this framework it will be critical to ensure alignment of the technical design elements that will both shape and be shaped by the legislative framework.

Through this letter, Alberta Energy requests AESO lead the technical design of the capacity market. As the effectiveness of a capacity market is linked to the energy market and ancillary services products-market, government also expects the AESO to evaluate and identify the necessary changes to the technical design of the energy market and ancillary services products to enable an efficient capacity market that ensures reliability of our electricity system.

Government expects the AESO to engage with and leverage the collective expertise of Alberta’s electricity sector participants and stakeholders, as well as draw on the expertise and experience from other capacity markets in the technical design of the capacity market. Government also expects the AESO to draw on the expertise of other Alberta electricity-related agencies and Alberta Energy in the technical design of the capacity market, and government encourages close collaboration with these groups.

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As Alberta Energy develops and refines the new legislative framework and the agency structure to support it, specific policy direction will be confirmed and provided to Alberta’s electricity-related agencies, including the AESO, as appropriate. As these specific policy decisions are a work in progress, the technical design and legislative framework development will move in parallel. The department recognizes that the AESO may be required to make certain assumptions to ensure the preliminary technical design work can proceed; the AESO is expected to review and discuss these assumptions with Alberta Energy as the AESO proceeds with the technical design work.

Final technical design elements will need to be explicitly aligned with the legislative framework that is being developed before implementation of the capacity market. It is therefore expected that the AESO will, through the design process and engagement with stakeholders, identify areas that require clarity on government expectations or policy. These should be raised to Alberta Energy for their consideration and decision-making by government.

Furthermore, government expects that the Alberta Utilities Commission will be responsible to exercise appropriate oversight to ensure the capacity market is designed, implemented and operated in a manner that is efficient while ensuring reliability of Alberta’s electricity system. As such, and consistent with existing statutory obligations, the AESO must seek approval for rules it may develop in a manner that is congruent with the regulatory process in place at the time of the rule’s approval.

As government continues to work towards the objectives outlined in this letter, additional direction to the AESO will be provided as necessary.

Sincerely,

Coleen Volk
Deputy Minister

cc: Bob Heggie, Alberta Utilities Commission
    Matt Ayres, Market Surveillance Administrator