

Stakeholder Comment Matrix

Designing Alberta's Capacity Market stakeholder sessions held January 12 and 16, 2017



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Period of Comment: <u>January 17, 2017</u> through <u>February 10, 2017</u>	Phone: <u>403 699 5275</u>
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To initiate stakeholder consultation on the capacity market design, the AESO hosted kick-off stakeholder sessions in Calgary and Edmonton on January 12 and 16, 2017. At these sessions the AESO presented a brief description about capacity markets, described our vision of the desired end state, proposed an approach to undertaking the design and a potential roadmap for completing the work. In addition, the AESO presented an approach to consultation, as well as a set of proposed criteria and assumptions to be used as tools to guide the capacity market design.

The presentation can be [found here](#).

We request your feedback about these topics as well as any others that you believe are appropriate for the AESO to consider. We expect a great deal of feedback based on the level of interest demonstrated by stakeholders at the sessions, and request you use this structured template to provide your comments. This will allow the AESO to quickly synthesize and publish the feedback from a broad range of interested parties.

All stakeholder comments received will be reviewed by the AESO and posted on the AESO website.

Capacity Market Design Approach

Please indicate in your response whether you support the planned design approach, or if not, why?

Section	Approach	Stakeholder Response
Proposed desired end state of capacity market development <i>Slide 7</i>	<p>Do you support the following statement regarding the desired end state for the capacity market? Do you disagree with the statement or have alternative wording? Please provide reasons for your response.</p> <p><i>“The desired end state is to develop a capacity market that utilizes competitive market forces, ensures continued supply adequacy and reliability at a reasonable cost and is flexible to reflect the unique aspects of Alberta’s electricity industry.”</i></p>	<p>The statement is a good end goal. Nexen would add our belief that reasonable cost is an outcome of a fair open competitive market. Enabling a fair open and competitive market should be the goal, not putting artificial constraints to manage to “reasonable” outcome. We would also add that flexibility needs to be factored into the initial design, but that from an investor perspective, stability should also be a goal. Having a market that changes regularly do to its “flexibility” or that invites policy manipulation will not be good for investors.</p>
Key design questions for capacity market development <i>Slides 8 – 11</i>	<p>Is the preliminary list of key design questions an inclusive list? Is it clear what area of capacity market development each question is intending to address? What clarification is required on any of these items? What additional questions or areas, if any, do you think should be added to the list to ensure a comprehensive capacity market design? Please provide as much detail as possible.</p> <ul style="list-style-type: none"> – <i>How much capacity needs to be procured? (Resource adequacy requirement)</i> – <i>Who will buy the capacity? (Obligation to procure)</i> – <i>When and how often will capacity be purchased? (Procurement timing and frequency)</i> – <i>How long will the capacity delivery period be? (Term)</i> – <i>Who can provide capacity? How much can they provide? (Eligibility)</i> 	<p>These are good questions and will require much thought to guide ourselves to a good outcome for Alberta.</p> <p>One area that appears to be missing is that of market governance. A question to be added would be; what form of independent, transparent market oversight should be developed?</p> <p>Market power was discussed at the AESO education session, but seems to be absent from any of the design questions. This could be a separate question or fit in to market design, but we feel that it should be explicitly addressed.</p> <p>Answering these question will require us to consider the inter dependancies that exist between the answer. We need to be aware of the need to recycle and consider the sum of the parts.</p>

Section	Approach	Stakeholder Response
	<ul style="list-style-type: none"> – <i>How do we know that capacity has been provided? (Performance assessments)</i> – <i>How will the capacity market work? (Market mechanics)</i> – <i>How will capacity providers be paid? How will capacity costs be allocated? (Capacity market settlement)</i> – <i>How will the capacity market impact the energy and ancillary services markets? (Inter-operability implications)</i> 	
Design dependencies and sequencing <i>Slide 12</i>	What additional information do you require regarding sequencing? Do you agree with dependencies between design elements and the proposed sequencing of the design? Is there an alternative sequencing that should be followed? Is there a different approach entirely that should be considered? Please provide reasons for your response.	
Capacity market development roadmap <i>Slide 13</i>	What additional questions or clarification do you have regarding the roadmap? Do you have any issues or concerns with the proposed roadmap for designing and implementing the capacity market? Are there items or considerations missing from the roadmap?	In the balancing act of getting it right and doing it quickly to get to investor certainty Nexen recommends taking time to get it right as rushing to an answer that requires adjustments will be counter productive to providing investor certainty. We believe getting it right in the design stage should be the goal.
AESO Consultation Principles <i>Slide 15</i>	Do you have any questions regarding the AESO's consultation principles as they pertain to development of the capacity market? Are there additional concepts or principles which should be considered? Please provide reasons for your response.	Nexen supports the highlighted principles and we would agree that an open and transparent process should be considered mandatory. One suggestion on the "informing stakeholders" component would be to develop a email subscription list whereby information could be pushed to interested parties rather than them having to check the AESO website for information.

Section	Approach	Stakeholder Response
Proposed approach to answering key design questions <i>Slides 16 – 17</i>	<p>What clarification or additional information do you require regarding the proposed approach?</p> <p>Do you support the two-stage iterative process proposed for the capacity market design?</p> <p>Do you agree this process will deliver an inclusive, timely, efficient, cohesive and comprehensive design?</p> <p>Do you think that the process will result in the expected benefits listed?</p> <p>Are there modifications to this approach that would improve its effectiveness?</p> <p>Is there an alternative consultation approach you would like us to consider and why? Please describe the alternative in as much detail as possible.</p>	<p>It is unclear to Nexen what the two stages of the stakeholder engagement model is. Please clarify.</p> <p>As mentioned earlier, timeliness must be balanced with due process and getting it right.</p>
Design Alternatives Sheets <i>Slide 18</i>	<p>Do you have any comments regarding the proposed purpose, structure or content for of the proposed design documentation?</p>	
Term Sheets <i>Slide 19</i>	<p>Do you have any comments regarding the proposed purpose, structure or content for of the proposed design documentation?</p>	
Design development steps <i>Slide 20</i>	<p>Do you have any questions regarding the proposed steps?</p> <p>Do you support the proposed design development process?</p> <p>What should be considered before a design component moves to the stage of being drafted into legal language?</p>	

Capacity Market Criteria

Please indicate in your response whether you support the following market criteria and provide reasons for your position.

Section	Subject	Stakeholder Response
Potential criteria for supply adequacy and reliability <i>Slide 22</i>	Do you support the following criteria regarding the supply adequacy and reliability category? Please explain. <i>The capacity market should achieve desired reliability objectives by creating a real and measurable supply adequacy product.</i>	Reliability objectives should not be solely focused on the consequences of too little supply adequacy. Too much supply adequacy has consequences as well.
Potential criteria for supply adequacy and reliability <i>Slide 22</i>	Do you support the following criteria regarding the supply adequacy and reliability category? Please explain. <i>The capacity market should contribute to the reliable operation of the electricity grid and implementation should be consistent with, and complementary to, other measures aimed at ensuring reliability.</i>	
Potential criteria for supply adequacy and reliability <i>Slide 22</i>	Are there additional criteria which should be included in this category?	
Potential criteria for the capacity market <i>Slide 23</i>	Do you support the following criteria regarding the market category? Please explain. <i>The capacity market should be fair, efficient, and openly competitive.</i>	Nexen completely supports this criteria. Focussing on getting this right will lead to reasonable cost outcomes without the need to “manage” a cost outcome.
Potential criteria for the capacity	Do you support the following criteria regarding the market category? Please explain.	Nexen completely supports this criteria. Focussing on getting this right will lead to reasonable cost outcomes without the need to “manage” a

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market <i>Slide 23</i>	<i>The procurement of capacity should employ market-based mechanisms and a competitive market for capacity should be developed.</i>	cost outcome.
Potential criteria for the capacity market <i>Slide 23</i>	Do you support the following criteria regarding the market category? Please explain. <i>A wide variety of technologies should be able to compete to provide capacity.</i>	Nexen agrees, but we remain uncertain about how a non dispatchable intermitant resource can compete in the same capacity market playing field as a dispatchable one. We are interested in seeing examples of how this could work from other jurisdictions.
Potential criteria for the capacity market <i>Slide 23</i>	Do you support the following criteria regarding the market category? Please explain. <i>Capacity market mechanisms, outcomes and relevant data should be transparent.</i>	
Potential criteria for the capacity market <i>Slide 23</i>	Do you support the following criteria regarding the market category? Please explain. <i>There should be a well-defined product and an effective and efficient capacity price signal.</i>	
Potential criteria for the capacity market <i>Slide 23</i>	Are there additional criteria which should be included in this category?	
Potential criteria for costs and risk <i>Slide 24</i>	Do you support the following criteria regarding the costs and risks category? Please explain. <i>Long-term investment risks should continue to be largely borne by investors rather than consumers.</i>	Nexen agrees with this criteria, but highlight that for this to be fair that stability of the marketplace needs to be a criteria for success as well. If the playing field continually changes investors will lose confidence and leave.

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Potential criteria for costs and risk <i>Slide 24</i>	Do you support the following criteria regarding the costs and risks category? Please explain. <i>The capacity market should instil investor confidence and should result in private investment.</i>	
Potential criteria for costs and risk <i>Slide 24</i>	Do you support the following criteria regarding the costs and risks category? Please explain. <i>There should be an effective balance between capacity cost and supply adequacy.</i>	Nexen is unsure of what this means. Please add clarity to this criteria.
Potential criteria for costs and risk <i>Slide 25</i>	Do you support the following criteria regarding the costs and risks category? Please explain. <i>The term of the capacity obligation should be as short as possible while ensuring supply adequacy objectives are achieved.</i>	New generation is built with a long term investment horizon. Nexen is uncertain as to whether the goal of “short as possible” is the correct focus.
Potential criteria for costs and risk <i>Slide 25</i>	Do you support the following criteria regarding the costs and risks category? Please explain. <i>Reasonable capacity costs for consumers should be achieved through effective competition and administratively determined prices should be avoided.</i>	As mentioned above Nexen supports fair open and competitive market based mechanisms.

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Potential criteria for costs and risk <i>Slide 24</i>	Do you support the following criteria regarding the costs and risks category? Please explain. <i>The design should provide mechanisms for consumers to hedge the cost of capacity if and where appropriate.</i>	Nexen supports market based mechanisms.
Potential criteria for costs and risk <i>Slides 24 – 25</i>	Are there additional criteria which should be included in this category?	
Potential criteria for flexibility <i>Slide 26</i>	Do you support the following criteria regarding the category of flexibility? Please explain. <i>Unique aspects of Alberta's electricity system should be considered in the design of the capacity market (e.g. nature of load/generation, levels of cogeneration, limited inerties, large geographic area, etc.).</i>	
Potential criteria for flexibility <i>Slide 26</i>	Do you support the following criteria regarding the category of flexibility? Please explain. <i>The capacity market should be compatible with other components of the electricity framework, and should be robust and adaptable to different government policy initiatives related to the electricity sector.</i>	Nexen disagrees with this criteria. Opening the door to government intervention should not be the goal of a stable market place as it will erode investor confidence.
Potential criteria for flexibility <i>Slide 26</i>	Are there additional criteria which should be included in this category?	
Potential criteria	Do you support the following criteria regarding the timely	As mentioned above Nexen believes getting it right has more value and

Section	Subject	Stakeholder Response
for timely development <i>Slide 27</i>	development category? Please explain. <i>Market should be targeted to open in 2019 for start of first capacity procurement.</i>	adds more stability to investors than getting it done sooner. Nexen supports getting it right versus getting it in place for a strict timeline.
Potential criteria for timely development <i>Slide 27</i>	Do you support the following criteria regarding the timely development category? Please explain. <i>The initial degree of change to the current energy and ancillary service market should be minimized.</i>	
Potential criteria for timely development <i>Slide 27</i>	Do you support the following criteria regarding the timely development category? Please explain. <i>Simple and straightforward implementation should be a priority.</i>	
Potential criteria for timely development <i>Slide 28</i>	Do you support the following criteria regarding the timely development category? Please explain. <i>To the extent a staged implementation is pursued, the expected timing and nature of future changes should be provided.</i>	Nexen is unsure what a staged implementation means. We are interested in getting more clarity on this.
Potential criteria for timely development <i>Slide 28</i>	Do you support the following criteria regarding the timely development category? Please explain. <i>The risks of regulatory delay and need for re-design should be minimized.</i>	Nexen completely agrees with this criteria.
Potential criteria for timely development	Do you support the following criteria regarding the timely development category? Please explain. <i>Best practices and lessons learned from other capacity market</i>	Nexen completely agrees with this criteria.

Section	Subject	Stakeholder Response
Slide 28	<i>implementations should be leveraged as much as possible.</i>	
Potential criteria for timely development Slides 27 - 28	Are there additional criteria which should be included in this category? 	
General feedback regarding criteria Slides 21 – 28	Are there additional categories of criteria which should be considered? Do you require additional explanation or have questions regarding any of the categories or criteria? Do you think all criteria are equally important or should some take precedence over others?	Nexen believes that some criteria should take precedence over others.

Capacity Market Assumptions

Please indicate in your response whether you support adopting the following starting assumptions and provide reasons for your position.

Item	Assumption	Stakeholder Response
1 Slide 30	Do you support adopting the following assumption? Please explain. <i>A capacity obligation is a forward physical obligation on capacity suppliers that requires the capacity sold in the capacity market to be available to provide energy when needed. This obligation is created when the supplier's offer is cleared in the capacity market.</i>	
2 Slide 30	Do you support adopting the following assumption? Please explain. <i>All existing capacity "must offer" their eligible capacity to the capacity market. Planned capacity must offer for the delivery year they are connected.</i>	
3 Slide 30	Do you support adopting the following assumption? Please explain. <i>The capacity market will be designed as a single zone with the capability of adding zones should it be required due to a change in transmission policy or other factors.</i>	
4 Slide 31	Do you support adopting the following assumption? Please explain. <i>The resource adequacy requirement for Alberta will be centrally determined.</i>	Nexen would add "with input from stakeholders" to the centrally determined concept.
5 Slide 31	Do you support adopting the following assumption? Please explain. <i>The capacity market is intended to ensure supply adequacy. Other attributes such as carbon output, total capacity factor, ramp flexibility, energy production costs, etc., are not considered within the capacity market.</i>	

Item	Assumption	Stakeholder Response
6 Slide 31	Do you support adopting the following assumption? Please explain. <i>Capacity and energy/ancillary services are separate products, and are procured independently.</i>	
7 Slide 32	Do you support adopting the following assumption? Please explain. <i>Participants do not need to be successful in the capacity market to participate in the energy and ancillary service markets.</i>	
8 Slide 32	Do you support adopting the following assumption? Please explain. <i>While receiving support payments, Renewable Electricity Program (REP) round 1 winners are not eligible to sell REP capacity in the capacity market owing to the Indexed REC payment mechanism chosen.</i>	
9 Slide 32	Do you support adopting the following assumption? Please explain. <i>Capacity market mechanics/behaviour will have regulatory oversight. Market outcomes will be the result of market clearing, unless otherwise demonstrated.</i>	The governance issue that Nexen raised on slides 8-11 needs to be addressed as part of this assumption.
General feedback regarding assumptions	Are there additional assumptions which should be considered? Do you require additional explanation or have questions regarding any of the assumptions?	

General Feedback

Please provide as much detail as possible in your responses below.

Section	Subject	Stakeholder Response
Next Steps <i>Slides 33 – 34</i>	<p>Please provide any general feedback you have regarding the January 12/16 AESO presentation content or format.</p> <p>Please provide any general feedback you have regarding formats for future materials or stakeholder sessions.</p>	
Next Steps <i>Slides 33 – 34</i>	<p>Please provide any feedback you have regarding next steps in the capacity market development process.</p>	
Next Steps <i>Slides 33 – 34</i>	<p>Assuming criteria, assumptions, key questions, sequencing and stakeholder approach are finalized, do you agree that next steps are to begin consultation on the first detailed design components? Do you agree that these items need to be resolved before detailed design components begin to be addressed?</p> <p>Other than the items listed above, do other topics need to be discussed or addressed, or other information provided, before detailed design discussions begin?</p>	
General Information	<p>Please provide any additional comments or information regarding topics which you think are relevant but have not been specifically addressed above.</p>	