

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:	Raj Retnanandan
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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.	The Tariff consultation process should bring on parallel stream discussions on storage tariffs so that storage tariffs could be filed concurrently with the AESO's application in June 2020
Capacity Market Cost Allocation Tariff Development Update		
15-20	Requirements of <i>Capacity Market Regulation</i>	No comment
21-22	Resource adequacy model and unserved energy	The RAM model seems to be based on 150 load scenarios and 50 iterations of unit performance. It is not clear whether the input parameters are the same as those used by the AESO for estimating target capacity and expected unserved energy in the context of the capacity market Rules proceeding (ID23757) before the AUC. The latter is being tested in the context of the AESO capacity market rules proceeding. If the RAM model used in this capacity market cost allocation exercise is different in any material sense, the differences should be identified and explained.
22	Distribution of expected unserved energy throughout the obligation period	No comment
23-27	Bookend scenario analysis	The book end scenarios and conclusions, although useful for review and analysis, suggest somewhat different on-peak, super peak and off-peak blocks compared with currently traded products in the electricity market. Since the market understands and is accustomed to responding to pool prices under the existing differentiation of time blocks, it would be better to continue to use the existing market based time blocks used

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		for energy products rather than create new time blocks for capacity costs..
25	Observations on bookend analysis results	See the above comment
26	Objectives for cost allocation rate design	<p>Agree with all except the statement “Load response to price signals should reduce procurement volumes in future obligation periods”. CCA strongly disagrees with this statement for the following reasons:</p> <ul style="list-style-type: none"> • First, if non price responsive loads are forced to bear cost responsibility for capacity that is higher than the corresponding contribution to market clearing price for capacity through incentive peak block weightings, the resulting rates would neither be just nor reasonable and would be discriminatory. • Second, no studies, including price elasticity studies, have been performed or provided to demonstrate that the higher cost responsibility being imposed on non-price responsive loads (due to incentive weightings) in one period would result in at least a commensurate reduction in costs for the same customers in subsequent periods. In other words, the cost versus benefit, from the perspective of non-price responsive loads, arising from imposing an incentive weighting for peak blocks has not been demonstrated. • Third, if the intent is to reduce future capacity costs, the non-price responsive loads would be perpetually subsidizing the price responsive loads due to lag effects; this amounts to discriminatory pricing.
28-30	Development of 400-hr on-peak time block	Since the market is accustomed to the existing blocks for super-peak, on-peak and off-peak and, since there are traded products corresponding to these blocks it would be better to continue to use the existing blocks rather than create new blocks including the 400 hour block.
31-32	Considerations for weights of time blocks	<p>The AESO states: Industrial loads generally curtail at about \$250/MWh delivered cost of electricity; in hours in which industrial load has historically curtailed, pool price has typically averaged \$500-600/MWh</p> <p>CCA’s response:</p> <ul style="list-style-type: none"> • There is no reason to assume pool price signals would be muted with the advent of the capacity market. Response to pool price would continue under a capacity market when the supply cushion is tight with the 3X, 6X and no look scenarios (when supply cushion<25MW) for energy price mitigation as proposed by the AESO; shortage price signals could be further strengthened if the AUC accepts Parties’ proposals for an ORDC type mitigation of energy prices during tight supply cushion hours. Since the 14:1 scenario is based on energy prices and since there is no expectation that pool prices would be muted under a capacity market scenario, any attempt to arbitrarily boost price signals through differential weighting of capacity costs is unnecessary and unwarranted. • The \$250/MWh delivered cost of energy at which industrial customers curtailed in the past is only relevant if it could be demonstrated that, at that price, there would be a corresponding reduction in capacity costs. This would be hard to demonstrate. On the other hand, if the relative weightings for capacity cost allocations were driven by the cost side as reflected in the contribution to unserved energy by each block, there would be a clear demonstration that the price signal and cost are closely matched. Accordingly determination of weights based on costs as reflected in the sum of EUE provides the appropriate evidentiary basis.

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		<p>The AESO states: Costs should not be allocated to off-peak time block as there is minimal unserved energy in off-peak hours and abundant capacity</p> <p>CCA response:</p> <ul style="list-style-type: none"> Slide 31 shows under an assumed capacity payment of \$1Billion, about \$161 million (\$1B*16.16%) of costs belong to the off-peak hours. Therefore, off-peak hours do incur capacity costs and should <u>not</u> be assigned zero weighting
33-34	Potential rate ranges	<p>Weightings other than those based on expected unserved energy, by block, would be arbitrary and contrary to the wording and intent of the Regulations. Section 12(5)c of the Capacity Market Regulations provide as follows:</p> <p>“assigning one weight to each time block, with the assigned weight corresponding to the anticipated contribution that the demand for and supply of electric energy in the hours in the time block has on the amount of capacity needed in the obligation period to meet the resource adequacy standard”</p>
34	Appropriate range of weight ratios to consider	<p>Using the weights based on sum of EUE would be appropriate. However, the calculations shown in Slide 31 appear do not appear to reflect the distribution of the sum of EUE by block based on Monte Carlo simulations of thousands of runs; this needs to be clarified by the AESO</p>
35-38	Additional considerations for rates	<p>In the additional considerations slide the AESO states:</p> <p>Rates in on-peak hours in some options may be higher than necessary to generate a response from load; rates in on-peak hours need to be high enough to generate a response that may reduce future capacity requirement.</p> <p>CCA Response:</p> <p>CCA does not see merit in these statements for the following reasons:</p> <ul style="list-style-type: none"> First, if non price responsive loads are forced to bear cost responsibility for capacity that is higher than the corresponding contribution to market clearing price for capacity through incentive peak block weightings, the resulting rates would neither be just nor reasonable and would be discriminatory. Second, no studies, including price elasticity studies, have been performed or provided to demonstrate that the higher cost responsibility being imposed on non-price responsive loads (due to incentive weightings) in one period would result in at least a commensurate reduction in costs for the same customers in subsequent periods. In other words, the cost versus benefit, from the perspective of non-price responsive loads, arising from imposing an incentive weighting for peak blocks has not been demonstrated. Third, if the intent is to reduce future capacity costs, the non-price responsive loads would be perpetually subsidizing the price responsive loads due to lag effects; this amounts to discriminatory pricing.

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39-43	Terms and conditions considerations	For dual use customers, net load should reflect the loads when they are taking power from the system
40	Regulation does not permit penalties or incentives	AESO proposal is acceptable
42	“Gross up” of POD metered volumes to adjust for distributed generation	AESO proposal is consistent with ID2018-19T and is acceptable. If there are similar situations of supply offsetting load at the POD at the transmission level, the same principle should be applied. This must include industrial systems and ISDs as applicable.
43	Preferred approach for deferral account true-up	The deferral account mechanism should be systematic and consistent irrespective of quantum of variance. Variances from each quarter should be recovered/refunded in the next quarter. All efforts should be made to ensure deferral account true up amounts are minimized and intergenerational inequities avoided as much as possible.
44	Allocation of capacity market costs to transmission losses	AESO proposal is acceptable and consistent with the Regulations
45	Capacity market cost allocation remaining work	The views on the appropriate weightings is highly polarized and a consensus among the TDAC is unlikely. Therefore, an opportunity should be provided for parties to present their written reasons in support of or, in opposition to the AESO’s final position and these submissions should be included in the filing with the AUC in June 2019.
Update on Bulk and Regional Transmission Cost Allocation		
48-51	Bulk and regional transmission cost allocation current work, future work, and next steps	<p>In the recent AESO proceeding (ID22942) the AUC raised questions about ways to mitigate uneconomic bypass. When any group of customers has the ability to systematically avoid cost responsibility without matching system cost reductions from a cost causation perspective, uneconomic bypass of the system could be the result. Key questions to be addressed by the working groups are:</p> <ul style="list-style-type: none"> • How should the bulk and regional systems be functionalized and classified so that the resulting tariffs recover the respective wires costs on the basis of cost causation? • How should the DTS tariff be designed to closely match and recover the cost responsibility as determined in the functionalization and classification steps for bulk and regional systems? • How should claims that shifting system cost responsibility from price responsive loads to non-price responsive loads would result in corresponding (or greater) reductions in future system costs, be assessed and evaluated, to ensure just and reasonable rates and inter-generational equity • How should claims of possible economic bypass of the system be assessed to ensure uneconomic bypass does not masquerade as economic bypass • How should contracting practices under the T&Cs be designed to mitigate risk of uneconomic bypass

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Additional Comments		
—	Please add any additional comments related to tariff design for allocating capacity market and bulk and regional transmission costs should be considered.	