

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:	Kris Aksomitis
Comments From:	The Cogeneration Working Group is comprised of the following members: Canadian Natural Resources Limited; Cenovus Energy Inc.; Dow Chemical Canada ULC; Husky Oil Operations Limited; Imperial Oil Resources Limited; Inter Pipeline Ltd.; Lafarge Canada Inc.; MEG Energy Corp.; Suncor Energy Inc.; Syncrude Canada Ltd. This submission represents the consensus view of the group and is submitted on behalf of the group by Power Advisory LLC. Individual member companies may also make independent submissions.	Phone:	587-894-7150
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Date:	2019-04-11		

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.	
Capacity Market Cost Allocation Tariff Development Update		
15-20	Requirements of <i>Capacity Market Regulation</i>	
21-22	Resource adequacy model and unserved energy	The resource adequacy model (RAM) is not well suited to determining the specific hours that are likely to have unserved energy. As such, the AESO should not over-interpret results from specific hours or periods in terms of setting cost allocation. Rather, the RAM should be used to confirm the reasonability of 'buckets' set by the goal of sending price signals that are consistent with reducing capacity needs and not distorting real-time energy market signals.
22	Distribution of expected unserved energy throughout	The results suggest that refinements to the outage scheduling process should occur. EUE clustered in September and October, for example,

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	the obligation period	are indicative that the outage schedule is causing the appearance of system risk.
23-27	Bookend scenario analysis	The bookend analysis simply highlights that the outage scheduling process can cause issues with the results. There is no reasonable expectation that moving load from on-peak hours to off-peak hours should result in a higher procurement volume.
25	Observations on bookend analysis results	The key observation is un-stated. Setting hours ahead of delivery through the tariff is highly inefficient and does not properly value flexible load. An interruptible tariff would be dramatically more efficient and the AESO should work with the Department to amend the Regulation.
26	Objectives for cost allocation rate design	
28-30	Development of 400-hr on-peak time block	Results driven by scheduled maintenance assumptions should be treated cautiously, i.e. high capacity cost allocations in September and October.
31-32	Considerations for weights of time blocks	Consideration for the efficiency cost of high capacity charges in the mid-peak hours should be given. Exports and storage will be negatively impacted with capacity charges and this could reduce the efficient function of the spot market. As noted previously, the AESO should work with the Department to amend the Regulation in order to address efficiency issues associated with ex-ante time blocks. The AESO should also work with the Department to amend the Regulation to prevent charging non-firm load or opportunity service for capacity as this is inconsistent with FEOC (inefficient and unfair) and inconsistent with cost causation.
33-34	Potential rate ranges	
34	Appropriate range of weight ratios to consider	The range of ratios to consider must balance the various distortions created by ex-ante time blocks against prices large enough to motivate behavior. The range considered by the AESO is wide enough to accommodate a 'least harm' approach where energy market distortions are minimized and the price signal is sufficient to motivate behavior changes.
35-38	Additional considerations for rates	
39-43	Terms and conditions considerations	<p>As noted in the Regulation, all rate classes must be treated equally. While the CWG believes that this should apply to all DTS load and exclude exports and interruptible (DOS or other classes as developed), the Regulation does not provide this flexibility. Accordingly, the majority of the considerations around terms and conditions appear to be out of scope.</p> <p>The CWG supports the progress made by the AESO and the terms and conditions working group that there should not be any penalties or ratchets. This, again, is consistent with the requirements of the regulation that all rate classes must be treated equally. The CWG submits that there should be no differential treatment within DTS load.</p>
40	Regulation does not permit penalties or incentives	It is unclear what possible rationale exists for penalties and incentives in the context of a centrally procured capacity product procured against a forecast of all AIL load. The Regulation prohibits this treatment, but more importantly there is no justification for differential charges to different customers of a firm product. All customers are charged for capacity as they use it based on identified time blocks, and there has been

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		no justification for any differential treatment.
42	“Gross up” of POD metered volumes to adjust for distributed generation	
43	Preferred approach for deferral account true-up	
44	Allocation of capacity market costs to transmission losses	The AESO approach appears reasonable, although it would be preferable to reduce a unit’s UCAP by the loss factor to avoid poor incentives. Capacity cost allocation must not distort energy market offers and this objective appears to be largely met in the proposed approach, which is a second-best outcome.
45	Capacity market cost allocation remaining work	The AESO should continue to work with the Department to highlight the inefficiency of both setting the hours ahead of the delivery year and charging capacity to all rate classes. All feasible cost allocations are inefficient under the current Regulation.
Update on Bulk and Regional Transmission Cost Allocation		
48-51	Bulk and regional transmission cost allocation current work, future work, and next steps	
Additional Comments		
—	Please add any additional comments related to tariff design for allocating capacity market and bulk and regional transmission costs should be considered.	