

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

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| Period of Comment: | March 14, 2019 | through | April 10, 2019 | Contact: | Vittoria Bellissimo |
| Comments From: | Industrial Power Consumers Association of Alberta (IPCAA) | | | Phone: | 403 966 2700 |
| Date: | April 10, 2019 | | | Email: | Vittoria.Bellissimo@IPCAA.ca |

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. | IPCAA continues to endorse the AESO approach of working collaboratively with industry to develop recommendations for capacity cost allocation (CCA). IPCAA continues to believe that consumers should have the strongest voice in designing the appropriate CCA as it is consumers who are paying. |
| Capacity Market Cost Allocation Tariff Development Update | | |
| 15-20 | Requirements of <i>Capacity Market Regulation</i> | IPCAA submits that the Capacity Market Regulation provided 4800 hours where a zero-cost weight could be applied, (off-peak hours), and these hours should not be priced higher than zero simply because the AESO is concerned that on-peak hours are becoming CCA expensive. The weighted energy method should not only allocate costs to time periods where the system is expected to need capacity, but should also provide a price signal to modify consumer behavior over the long-term, with the desired result of reducing the overall capacity procurement volume. |
| 21-22 | Resource adequacy model and unserved energy | RAM continues to be a point of contention not only in the CCA but also within the AUC's proceeding on the capacity market rules (AUC ID 23757). The current RAM can provide guidance on the CCA; however, the finalization of the design should wait until the completion of the AUC's technical meeting on the RAM and any subsequent RAM changes. |
| 22 | Distribution of expected unserved energy throughout the obligation period | There are obvious anomalies with the distribution. The output should be revisited with any modifications to the RAM that result from the capacity market rules proceeding (AUC ID 23757). |

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| 23-27 | Bookend scenario analysis | The bookend analysis that was completed has been helpful. |
| 25 | Observations on bookend analysis results | IPCAA believes that the narrow book end has a greater likelihood to reduce capacity costs for the market and should be recognized as such in the design. |
| 26 | Objectives for cost allocation rate design | Cost allocation should drive efficient outcomes. There has to be a linkage between the capacity cost driver and a focus on reducing the need for capacity. In other words, the cost allocation should incent a load response in a sufficiently small number of hours that has the highest likelihood of EUU. Simplicity of design is also critical in the CCA. |
| 28-30 | Development of 400-hr on-peak time block | The original concept proposed by the DOE was at least 200 hours, IPCAA can support a 400-hour super-peak block, but less hours would be optimal. For simplicity, the block should be no more than two to three hours per day and Monday through Friday. |
| 31-32 | Considerations for weights of time blocks | Loads have indicated that when pool prices are above \$250/MWh, typically there will be demand response. Super-peak hours should signal a sufficiently high pool price to garner demand response. |
| 33-34 | Potential rate ranges | IPCAA would support a range in the 12:1:0 to 20:1:0 weightings illustrated on slide 34. |
| 34 | Appropriate range of weight ratios to consider | CCA is about driving efficient outcomes. IPCAA submits that higher ratios will drive demand response and ultimately the need for less new capacity. |
| 35-38 | Additional considerations for rates | IPCAA continues to believe that a “peaky” CCA is the most important aspect in providing an efficient cost allocation. |
| | Terms and conditions considerations | IPCAA supports the AESO’s determination that capacity costs and transmission costs do not need to be settled at the same measurement point. |
| 40 | Regulation does not permit penalties or incentives | IPCAA supports the AESO’s conclusion on penalties and incentives |
| 42 | “Gross up” of POD metered volumes to adjust for distributed generation | IPCAA supports that POD metered volumes need to account for distributed generation so that all load that is not a self-supplier pays capacity costs. This will also avoid the potential concern of a distributed generator getting paid twice for capacity. Note that if capacity costs would have been added to settled energy through the retailer, this would not have been an issue. |
| 43 | Preferred approach for deferral account true-up | IPCAA is supportive of a design that leads to small or inconsequential deferral accounts. If the CCA leads to larger deferral accounts they should not be allocated back flat but based on the time blocks in which they were accrued in. |
| 44 | Allocation of capacity market costs to transmission | IPCAA believes that since capacity is being purchased for transmission losses, the CCA should allocate those costs back to those who |

| Slides | Topic | Stakeholder comments |
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| | losses | incurred them. Only if the AESO can show such a mechanism is prohibitive in cost or structure should it then be ignored. |
| 45 | Capacity market cost allocation remaining work | IPCAA submits that the overall capacity market design should deliver an outcome of reliability at reasonable cost and that the CCA should form an integral piece of creating that reasonable cost by incenting loads to not consume in periods where capacity is actually scarce. |
| Update on Bulk and Regional Transmission Cost Allocation | | |
| 48-51 | Bulk and regional transmission cost allocation current work, future work, and next steps | IPCAA will continue to participate in the consultation process for bulk and regional transmission cost allocation. |
| Additional Comments | | |
| — | Please add any additional comments related to tariff design for allocating capacity market and bulk and regional transmission costs should be considered. | The CCA should be founded upon the principle that consumers are provided a signal to manage their costs. To IPCAA, that means a strong financial signal to not consume in hours where capacity is truly scarce. Work should continue on updating the RAM to accurately determine those hours. |