

March 22, 2019

Proceeding 23757
Application 23757-A001
ISO rules to implement and operate the capacity market

Ruling on capacity market issues to be explored during the hearing and other matters

Summary of ruling

1. In this ruling, the Alberta Utilities Commission determines the following:
 - The issues the Commission intends to explore during the six-week hearing to consider the proposed independent system operator (ISO) rules to establish and operate the capacity market that are set out in the application filed by the Alberta Electric System Operator (AESO) on January 31, 2019,
 - The process to be used to consider ISO Rule 207.1: Resource Adequacy Model and ISO Rule 207.2A: Gross Minimum Procurement Volume, and
 - That the request made by TransAlta Corporation for additional information and analysis from EDC Associates is denied.
2. Additionally, the Commission provides clarification on its evidentiary process in light of the submissions made by The Pembina Institute for Appropriate Development during the pre-hearing conference.
3. The writer has been authorized to communicate the following.

Ruling

Issues to be explored during the hearing

4. The Commission held a pre-hearing conference on March 14 and 15, 2019 to hear argument from counsel for the AESO and interested parties on the issues they consider should be explored during the hearing. Parties were encouraged to focus on those issues they consider to be most critical to resolve in the six-month process.
5. The Commission considers that, at a minimum, the six-month process must result in a sufficiently comprehensive and sound evidentiary record to allow the Commission to reach an informed decision on whether to provisionally approve the proposed ISO rules on the basis of the legislative criteria set out in Section 20.22(5) of the *Electric Utilities Act*. That section states:

(5) The Commission may provisionally approve an ISO rule referred to in subsection (2) only if it appears to the Commission that

(a) the ISO rule

- (i) is not technically deficient,
- (ii) supports the fair, efficient and openly competitive operation of the capacity market,
- (iii) is in the public interest,
- (iv) supports ensuring a reliable supply of electricity is available at reasonable cost to customers, and
- (v) does not conflict with and is not inconsistent with the regulations made under section 41.46,

and

- (b) that the Independent System Operator, in developing the rule, complied with the Commission rules made under section 20.9.

6. Because of the time constraints on the provisional approval process, the Commission will not be able to examine every issue during the hearing. Accordingly, the Commission will focus on those issues for which it most requires further information in order to make an informed determination on the ISO rules in accordance with the approval standard and criteria set out in the legislation.

7. The following list sets out the issues the Commission intends to explore during the six-week hearing.

I. Market objectives

The objectives embodied in the capacity market design and how they collectively support efficiently achieving a reliable supply of electricity at reasonable cost to consumers.

II. Demand curve

How the demand curve supports efficiently procuring the capacity required to meet the resource adequacy standard at reasonable cost to consumers, including:

- (i) The costs and benefits associated with using the shape of the demand curve to stabilize price, and
- (ii) The costs and benefits associated with the level of the price cap.

III. UCAP and the performance scheme

Various aspects of the proposal including the relationship between UCAP and the performance scheme and how they collectively affect supplier incentives and risk, including:

- (i) The degree to which UCAP accuracy is affected by data limitations,

- (ii) The degree to which the performance scheme can be relied on to incent accurate self-selection of UCAP,
- (iii) The accuracy of the regression approach for gross dispatched self-suppliers,
- (iv) Whether a mechanism is required to address the potential conflict between the need to perform planned maintenance and the risk of non-performance,
- (v) The basis for differentiating between additional energy provided by capacity suppliers and non-capacity suppliers during EEA events,
- (vi) The outcomes of the performance scheme in circumstances of few EEA events, and
- (vii) The incentives created by capping performance payments and charges.

IV. Ex-post energy offset methodology

The costs and benefits of adopting an ex-post methodology for determining the energy offset, including impacts on:

- (i) Risk to market participants,
- (ii) The exercise of supplier market power in the energy market,
- (iii) The accuracy of the overall (capacity and energy) price signals generated by the market, and
- (iv) Other components of the market design.

V. Capacity market power mitigation and de-listing

- (a) Could greater reliance reasonably be placed on competitive forces, rather than on administrative intervention, to discipline market behaviour, including:
 - (i) With respect to incremental offer blocks from capacity committed resources, whether:
 1. These offers are required to meet the resource adequacy standard,
 2. Absent an ex-post energy offset, the offers are required by suppliers to reflect their incremental costs of providing the incremental capacity,
 3. Absent an ex-post energy offset, the offers provide sufficient value to consumers to justify allowing them to influence the capacity market clearing price, and

4. Removing these offers or restricting their ability to influence price will reduce the need for administrative intervention to manage supplier market power.
 - (ii) With respect to de-listing, whether constraining the ability to re-enter the market after de-listing is an effective alternative to guard against the exercise of market power, instead of constraining exit.
- (b) The basis for, and efficacy of, restricting the participation of de-listed assets in the energy market, and
- (c) Whether market power mitigation is required in the rebalancing auctions.

VI. Energy market mitigation

The justification for, and efficacy of, the proposed energy market mitigation framework, including:

- (i) The justification for mitigating un-contracted suppliers and volumes,
- (ii) The anticipated role of market power-driven scarcity prices, and
- (iii) The incentive to physically withhold supply in order to enable scarcity pricing.

VII. Agency roles and responsibilities

The assignment of duties under the ISO rules and the decision taken by the AESO to assign those duties to itself; the changes proposed by the Market Surveillance Administrator (MSA) in Exhibit 23757-X0389 and how those changes may be effected within the legislative scheme in Alberta; and whether either of the AESO or the Commission has the authority to encumber the MSA with obligations in the ISO rules.

8. Notwithstanding the above, the Commission will not circumscribe the issues that parties may explore during their allotted time for cross-examination. However, parties are reminded that strict limits will be placed on cross-examination time. Accordingly, parties are strongly encouraged to be judicious in managing their allotted time and to focus on the issues set out above.

9. All parties will be free to submit written argument and reply argument on any issue, provided there is at least some evidentiary basis on the record of the proceeding to support argument/reply argument on the issue in question.

ISO Rule 207.1: Resource Adequacy Model and ISO Rule 207.2A: Gross Minimum Procurement Volume

10. The Commission has received evidence and heard argument during the pre-hearing conference which confirms that there is a significant desire to explore the resource adequacy model (RAM) and gross minimum procurement volumes (GMPV). Numerous parties identified concerns with the RAM and its output procurement volumes for the first two base auctions. The

technical nature of these topics, combined with the compressed timeline of the six-month process, has prompted the Commission to consider alternatives for evaluating these design elements within the six-month process.

11. During the pre-hearing conference, the Commission asked parties to comment on a number of alternative processes to consider the RAM, including a parallel written process, ‘hot tubbing’ of expert witnesses, and a technical meeting or roundtable.

12. Parties were asked to provide the Commission with additional submissions on these issues, if desired.

13. The Commission received additional submissions from parties on March 19, 2019.¹

14. Although the Commission is sympathetic to the submissions made on the resource constraints parties face during the six-month process, it has determined that the time available for the hearing is best used on the issues the Commission intends to explore. In addition, and notwithstanding the demanding circumstances faced by all parties to this highly compressed proceeding, the Commission has determined that the RAM and GMPV are of sufficient importance to warrant an additional but separate process.

15. Accordingly, the Commission directs the AESO to conduct a technical meeting on the RAM and GMPV. Parties interested in participating in the technical meeting are directed to confirm their participation by letter on the record of this proceeding by **4 p.m. on March 28, 2019**.

16. The Commission will not direct the timeframe for scheduling the technical meeting other than to note that the hearing is adjourned during the week of May 6, 2019, and this may be an opportune time to convene the technical meeting.

17. The AESO is directed to submit a report to the Commission by **4 p.m. on May 24, 2019**. The report should, at a minimum, include the following:

- (a) The proposed treatment of the following RAM inputs and calibration issues, including the concerns raised by parties about:
 - (i) The load forecast,
 - (ii) Outage rates,
 - (iii) Ambient temperature de-rates,
 - (iv) Performance of the inertie,
 - (v) Scheduling and coordination of planned outages,

¹ Submissions were filed by the AESO, the Consumers Coalition of Alberta and Energy Storage Canada, Capital Power Corporation, Suncor Energy Inc., ENMAX Energy Corporation, Canadian Solar Industries Association, TransCanada Energy Ltd., and TransAlta Corporation.

- (vi) The potential for discretionary outage rescheduling, and
 - (vii) Perceived discrepancies between forecast and actual unserved energy, having regard for forecast and actual reserve margins.
- (b) The views expressed by each participant on the RAM inputs and calibration issues, and the AESO's reasons for accepting or rejecting them,
 - (c) An explanation of how the AESO determined any updates to the elements of the RAM,
 - (d) An agreed-upon statement of the consultation process and outcomes, signed by each participant and the AESO, and
 - (e) The minimum procurement volumes resulting from any modifications or updates to the RAM, as applicable.

18. The Commission will reserve the hearing date of June 7, 2019 for questioning the AESO on the resulting report. Questioning will be limited to Commission counsel and the Commission panel.

19. The AESO's proposed demand curve governance process, as set out in Section 6.6 of the AESO's application,² may be addressed by parties in argument and reply argument.

TransAlta request for additional data from EDC

20. On March 13, 2019, TransAlta Corporation filed a letter requesting that EDC Associates provide information substantiating and documenting the assumptions and modeling inputs that it relied on for its evidence prepared for the Consumers Coalition of Alberta (CCA). TransAlta stated that it required the additional information because the absence of critical inputs and assumptions made the evidence difficult to assess. Specifically, TransAlta requested excel-based spreadsheets for the two scenarios modeled, a description of the modeling tools used, a description of how capacity offers were estimated, an excel file containing several modeling outputs and a detailed explanation of how EDC arrived at the \$5 to \$15 per kW of installed capacity improvement from the inclusion of ancillary services in the energy offset.³

21. The CCA filed a letter in response to TransAlta's request on March 18, 2019. It argued that the request for modeling information is outside the process for the six-month proceeding because the Commission has not established a process for information requests and responses. The CCA noted that no other party has released its modeling results, assumptions or inputs, and cautioned that some of the information requested may be considered proprietary by EDC. It also submitted that, given the familiarity of Alberta electricity market participants with EDC's modeling work, there should be no need to call EDC's methodologies into question. Accordingly, the CCA asked that TransAlta's request be denied.⁴

² Exhibit 23757-X0284, AESO application for approval of capacity market rules, January 31, 2019, page 63 – 72.

³ Exhibit 23757-X0405, TransAlta Letter to AUC re Request for Additional Data from EDC Associates, March 13, 2019, PDF page 1-2.

⁴ Exhibit 23757-X0406, CCA Letter re TransAlta's Request for Information, March 18, 2019, PDF page 1-2.

22. The Commission has established a process that specifically excludes information requests. It would be procedurally unfair to depart from that process. The Commission consequently denies TransAlta's request. TransAlta will have an opportunity to question EDC on its evidence at the hearing.

Additional instruction on the Commission's evidentiary process

23. During the pre-hearing conference, Pembina referred to its right to submit rebuttal evidence during the hearing. The following clarifies the evidentiary process in this proceeding.

24. Pursuant to the process communicated on February 6, 2019,⁵ and Section 18 of Rule 001: *Rules of Practice*, parties were afforded the opportunity to file intervenor evidence on February 28, 2019. Rebuttal evidence from intervenors must be filed on the record of the proceeding by April 4, 2019.

25. The oral proceeding will be conducted in accordance with Section 42 of Rule 001, that states at subsection 42.1:

42.1 Unless otherwise directed, no documentary evidence may be presented at an oral hearing unless the evidence was filed in accordance with Section 17.

26. In the absence of a Commission direction to the contrary, the Commission expects parties to confine themselves to conducting questioning of witness panels with the objective of obtaining oral evidence that will further the Commission's understanding of the issues and evidence. A party should expect that its witness panel will be questioned on its pre-filed evidence and rebuttal evidence by parties adverse in interest during the hearing. There will be no further opportunity to adduce rebuttal evidence beyond the April 4, 2019 process step.

27. If you have any questions, please contact Elizabeth von Engelbrechten at 403-592-4489 or by email at Elizabeth.von.Engelbrechten@auc.ab.ca.

Sincerely,

Elizabeth von Engelbrechten
Commission Counsel

⁵ Exhibit 23757-X0352, AUC process letter, February 7, 2019, page 1.