Competing to serve
Alberta's power consumers

What Will the Playing Field Look Like?

IPPSA

Independent Power Producers Society of Alberta

Investor Confidence

- It's subjective: every company has to decide on its own if it will pull the trigger and invest.
- It's improved via policy stability and agency cohesion
- It's a pre-requisite for sustained, timely and competitive supply to be built in Alberta

Overview of Presentation

1) The Challenges

2) The Solutions

The Challenges:

- Multiplicity of objectives in legislation
  - ‘FEOC’, ‘public interest’, ‘reliable supply’, ‘reasonable cost’, ‘just and reasonable rates’
- Agency alignment and cohesiveness
  - Offer Behavior Enforcement Guidelines
  - BP Offer Behavior

The Challenges: *Many Objectives in Legislation*

- Agencies have "public interest mandates"

- The EUA directs the ISO to "ensure that a reliable supply of electricity is available at reasonable cost to customers and to promote a fair, efficient and openly competitive capacity market.

- The EUA also includes FEOC duties of the agencies to uphold "fair, efficient and openly competitive operation of the electricity (and capacity) market."

- **Are these three clauses the same thing?**
- **Are they different things?**
- **Who decides? When will they decide? Is their decision final?**

The Challenges: *FEOC Itself has been Hard to Define*

- FEOC has been the subject of much spilled ink and even more legal fees.
- How will these other objectives fair? How will all three fair together?

- <u>Case in point</u>: MSA's Offer Behavior Enforcement Guidelines, Version 4
  - Energy-only market remains in effect until new market goes live in 2021; no change from a competition or investment and market risk perspective until then
  - No basis to change interpretation of FEOC prior to then
  - Yet, we've seen 4 approaches to the OBEG through 4 different MSAs:
    1) Introduced in 2011
    2) Revoked in 2017
    3) A new version telegraphed in 2018
    4) And now OBEG consultation

The Challenges: *BP Offer Behavior*

- Second Case in Point: The Balancing Pool's historic offer behavior
  - The BP became the single largest market participant as a result of PPA terminations
  - Concern that its offer strategy artificially distorted market outcomes, and exacerbated challenging market conditions in 2016/2017
  - Concerns over participant behavior should be the same regardless of direction of impact for pricing outcomes
  - The BP's behavior is *estimated* to have cost non-BP generators ~$1.7 billion in lost market revenue in 2017 alone (EDC Associates)
  - The BP's behavior has *actually* cost consumers ~$680 million in expended consumer savings in 2016 and now an additional ~$1 billion in a negative deferral account.

The Solutions:

1) Dispatch of Balancing Pool-held PPAs in a commercial manner. Encouraged that BP undertaking a process that is inviting proposals that could provide greater assurance and certainty to the market.

2) Reduced agency overlap and greater clarity on distinct roles and responsibilities of agencies with respect to responsibilities for market rule development, approval, administration and guidance.

3) Within the AUC's Provisional Rules consultation, IPPSA has asked for a common understanding for what generators, consumers and agencies are trying to achieve…

The Solutions: *A Common Understanding*

"The desired end state is a stable and transparent capacity market that relies on competitive market forces, and works efficiently with the energy and ancillary service markets, to achieve sufficient investment to maintain supply adequacy and reliability at the lowest, reasonable cost for consumers, while working effectively within Alberta's unique electricity structure." ("reasonable" is added to align with Bill 13.*)*

And whereas,

- *The price outcomes of FEOC capacity, energy and ancillary services markets are by definition reasonable prices and if applied to reasonably determined volumes result in reasonable costs for consumers.*
- *In order to achieve the desired 'sufficient investment', rules, guidelines and agency behavior must ensure that investors have the opportunity to recover fixed costs (including sunk and going forward costs) and a return on those investments in the capacity market.*
- *'Competitive market forces' is measured against price outcomes that over time recover the long run marginal cost of efficient units."*