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AR28048

Dr. Matt Ayres
Market Surveillance Administrator
matt.ayres@albertamsa.ca

Dear Dr. Ayres:

This letter will serve to confirm government's request to the Market Surveillance Administrator (MSA) in relation to Alberta's transition to a new capacity market framework, which was announced by government on November 23, 2016.

As you are aware, government has directed Alberta Energy to lead the transition of Alberta's electricity system to a lower carbon system. This work includes establishing the legislative framework that enables the implementation and operation of a capacity market, including the principles under which the framework will function. Alberta Energy will seek advice from all electricity-related agencies, including the MSA, and engage Alberta's electricity-sector participants and stakeholders on the legislative framework. As the legislative framework and market design will be done in parallel, it will be critical to ensure the technical design aligns with the policy and legislative framework.

Through this letter, Alberta Energy requests the MSA provide market-related expert advice to support the transition to a capacity market framework. This includes, but is not limited to, expertise about:

- interaction between capacity markets, energy markets and ancillary services markets;
- risks of price excursions or negative impacts on the competitiveness of the market during a transition from an energy-only market to a fully implemented capacity market framework; and
- possible risk mitigating measures for such a transition period.

It is expected that the MSA will draw on the expertise and experience from capacity markets in other jurisdictions as necessary when providing expert advice. This could include the commissioning of external analyses.

Alberta Energy is leading the policy design of the new capacity market framework, while the Alberta Electric Systems Operator (AESO) is leading the technical design. It is government's expectation that the MSA will work collaboratively with both Alberta Energy and other electricity related agencies; provide advice and share information in a timely manner; and leverage each other's expertise, experience and knowledge. Successful implementation of a new capacity market framework in Alberta includes well-designed capacity, energy, and ancillary services markets which together achieve an efficient outcome for the overall Alberta electricity system.

As Alberta Energy develops and refines the new legislative framework and the institutional framework to support it, specific policy direction will be confirmed and provided to Alberta's electricity-related agencies, including the MSA, as appropriate. As these specific policy decisions are a work in progress, the technical design and legislative framework development will move in parallel.

Final technical design elements will need to be explicitly aligned with the legislative framework that is being developed before implementation of the capacity market. It is therefore expected that the MSA will, through its support in both the policy and technical design processes, identify areas that require clarity through government policy. These should be raised to Alberta Energy for consideration and decision-making by government.

As government continues to work towards the objectives outlined in this letter, additional direction to the MSA will be provided as necessary.

Sincerely,

Original signed by;

Coleen Volk
Deputy Minister

cc: Bob Heggie, Alberta Utilities Commission
Dave Erickson, Alberta Electric System Operator