ENERGY REGULATORY REPORT

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ALBERTA UTILITIES COMMISSION

***Market Surveillance Administrator Notice of Complaint of Suncor Energy Inc. in Respect of Section 203.1 of the Independent System Operator Rules, Offers and Bids for Energy,* Ex. 29009-X0002.01 in AUC Proceeding 29009**

Electricity – FEOC

Complaint

On April 30, 2024, Suncor Energy Inc. ("Suncor") filed a complaint with the Alberta Utilities Commission ("AUC"), pursuant to ss 25(1)(b)(ii) and (iii) (electricity market participant complaint provisions) of the *Electric Utilities Act* ("*EUA*") ("Complaint"), in respect of the Independent System Operator ("ISO") Rule 203.1, *Rules, Offers and Bids for Energy* ("*Rule 203.1*") and the associated definitions in the AESO's *Consolidated Authoritative Document Glossary* ("*Glossary*").

The Complaint alleges that *Rule 203.1*:

(a) does not support the fair, efficient and openly competitive ("FEOC") operation of the electricity market; and

(b) is not in the public interest.

Suncor Submissions

Suncor submitted that the definitions of 'source assets' and 'import source assets' in the *Glossary*, read together with the provisions of *Rule 203.1*, result in inequitable treatment of the electricity generating assets located in Alberta ("Generators") and the import source assets not physically located in Alberta that offer into the electricity market via transmission interties originating outside of Alberta ("Importers"). Pursuant to *Rule 203.1*, Generators must always offer the maximum volume of megawatts ("MW") they are physically capable of providing, resulting in a must offer obligation ("Must Offer"). Importers, however, under *Rule 203.1* have the option of offering any volume of MW into the electricity market, including not offering any MW at all.

Customers pay for supply adequacy through the pool price, which has a certain cost. Due to Importers being held to a lower standard than Generators under *Rule 203.1*, customers receive substandard supply adequacy while Importers receive a benefit in the form of payment without contributing to that supply adequacy.

This results in inefficient, substandard supply adequacy relative to the cost of electricity in the market. Consequently, *Rule 203.1* does not support the FEOC operation of the electricity market and is not in the public interest. Suncor estimated that consumers paid on average more than $200 million per year through the electricity market for a contribution to supply adequacy that was not provided. Suncor's share was over $800,000 per year.

Suncor submitted that the operation of *Rule 203.1* creates significant costs and inefficient subsidization. The Must Offer obligation in *Rule 203.1* creates a capacity commitment for Generators but not for Importers. In the energy-only market, the single pool price is intended to pay pool participants for both the delivered energy and the asset capability commitment to Alberta to recover the cost of investment. The latter component of the pool price is driven either by higher cost units setting price, by economic withholding or by scarcity pricing at the price cap.

Suncor stated that these two components of the pool price were expressly recognized by the AESO in its capacity market proposal in Proceeding 23757 through two payment streams: a capacity payment and a residual energy payment. The capacity payment reflected the value attributed to the commitment of the capability to Alberta and the residual energy payment reflected the value attributed to the provision of energy.

By not imposing on Importers the same Must Offer obligation imposed on Generators, while paying Importers the same hourly pool price as Generators, Importers are being paid as if they provided a capacity commitment. Suncor proposed that an estimate of the cost of new entry (“CONE”) for the next/marginal generating asset minus the expected energy market return (“net-CONE”) could be used to estimate the subsidy that Importers obtain from not being subject to the Must Offer obligation.

<u>Requested Relief</u>

As primary relief, Suncor requested that the AUC direct the AESO to change *Rule 203.1* to include a charge applicable only to Importers for the recovery of the value of the capacity commitment embedded in the pool price received by Importers without providing the commensurate supply adequacy created under the Must Offer obligation. Suncor requested that the charge be set:

1. at $0/MWh for hours where AESO declared an Energy Emergency Alert;
2. at $0/MWh for hours where the pool price is less than the reference price defined in ISO *Rule 201.6 Pricing*, s 6; and
3. equal to the pool price minus the reference price for all other hours.

Suncor sought a secondary relief, in addition to the primary relief, requesting that the AUC direct the AESO to commence a consultation process directed at updating *Rule 203.1*.