



Long Term Markets for Generation

Ivey 6th Annual Workshop on the Economics of Electricity Policy and Markets

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Capital 
Power

About Capital Power



Publicly-traded company (TSX: CPX)
headquartered in Edmonton, Alberta
Growth-oriented, targeting \$500MM - \$1B
per year



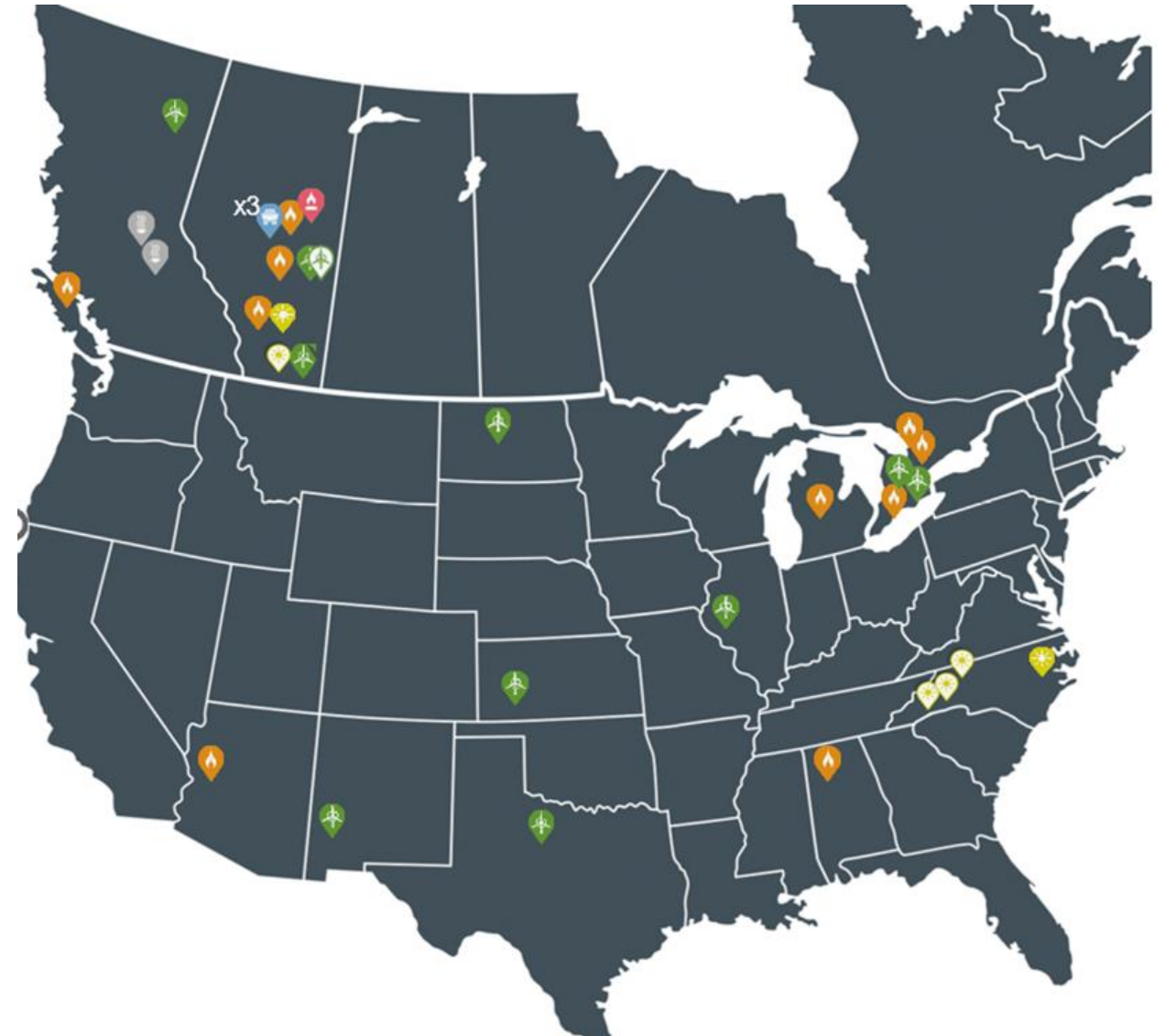
Own **~7,400** MW of power generation
produced at **28** facilities in Canada and U.S.



~800 employees; regional offices in
Boston, Toronto and Calgary



Named one of the World's Most Ethical
Companies[®] by the Ethisphere Institute
(2019-2022)





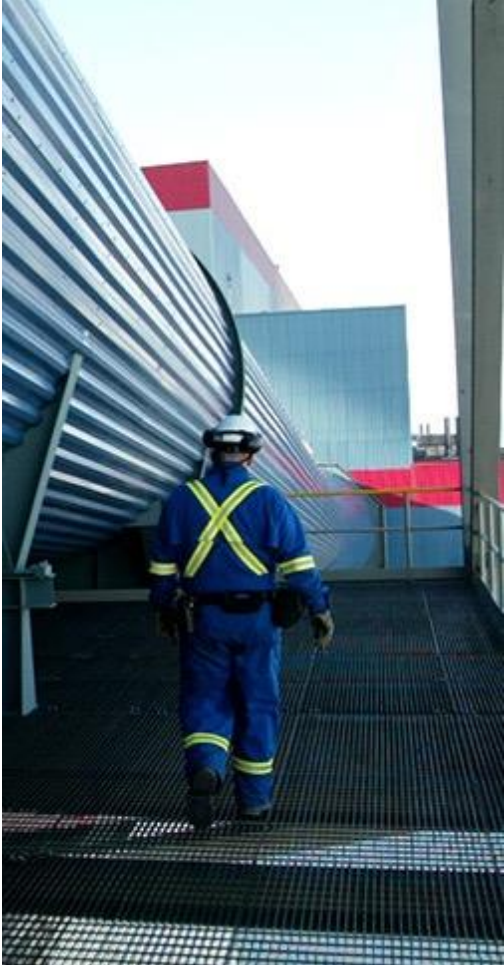
The value of markets

- Markets facilitate competition, and competition delivers value to ratepayer, society, and the economy
- Competition, and promise of competitive returns, remains the best (if imperfect) mechanism for driving innovation and prudent capital allocation
- No “one size fits all” – market design must consider jurisdiction, natural resources, regulatory framework, customer base
- Electricity markets require participation from capable, well-capitalized firms
 - Assets needed for the energy transition include long-life, capital-intensive resources
 - Strong balance sheets are required



Firms compete for capital and returns

- Investors want to see firms deploy capital responsibly:
 - Financial performance + ESG performance
 - Credible decarbonization plan
 - Demonstrated ability to anticipate to stakeholder interests and customer choice
- IPPs are less likely to take science risk or stroke-of-pen risk; can take development/construction risk, operational risk and market risk*
- Both firms and markets compete for capital, and the speed at which capital moves/pivots can surprise





What makes a market attractive?

- Reasonable opportunity (not assurance) to earn a return on, *and of*, capital invested
- Fundamentals supporting investment are necessary but not sufficient
 - Developers must consider market history, structure, performance/supply mix, transparency/price fidelity, available hedging mechanisms, counterparty risk, sovereign risk, rule-making, agency roles and responsibilities/governance, change-in-law risk
- Level playing field
 - If uneven by design, then need to understand the topography and be able to price risk accordingly





What makes a market attractive?

- Markets/commercial constructs must meet needs of investor and customer – price transparency, accuracy, stability
 - Hedging mechanisms are required by investors and consumers
 - Must be able to sell/procure attributes desired by various customer classes – this goes beyond energy and capacity
 - Reliability - attributes needed by grid
 - Carbon/environmental attributes – attributes needed to meet decarbonization and transition goals
 - Affordability – price still matters
- Where policy drives procurement, governments and market participants have an important role in accurately communicating the cost of the policy implementation/choice





Ontario – the necessity of contracts

- The hybrid model has succeeded in attracting investment in long-life generation assets and proved it can bridge the gap between electricity policy and electricity markets in Ontario
- Urgent supply need, but no compelling procurement alternative:
 - Proposed market reforms don't address long-standing structural features
 - Supply mix dominated by high CapEx, low OpEx resources; large share of generation is crown-owned
 - History of government and policy-based intervention; government directives are a feature embedded in the legislative framework
- Gas-fired generation continues to be necessary for the energy transition while also maintaining economy-critical reliability and affordability; contracts are best for incentivizing investment in decarbonization technology



Summary

- Competition is the best mechanism for driving innovation and value needed for the energy transition. Both firms and markets need to adapt to ensure competition continues to deliver value.
- There is no one-size-fits-all approach to market design. Markets must evolve to include mechanisms that attract investment in desired attributes from competent developers and prudent capital allocators.
- The hybrid model has worked in Ontario and remains the best approach for the province's next phase of resource procurement and further decarbonization.



Thank you.

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