



July 22, 2005

*Sent via e-mail*

## **Interested Parties**

AESO Export, Import and Merchant Transmission Development

Dear Stakeholder:

Re: AESO Export, Import and Merchant Transmission Development

On June 29th, 2005 the Alberta System Operator (AESO) held a stakeholder consultation meeting to discuss Export, Import, and Merchant Interconnection Tariff Development.

The AESO has now prepared a discussion paper, based on comments at the meetings and further development of proposals and alternatives by the AESO. Attached to this discussion paper is a separate comment form which includes all the issues that have been identified as a priority, numbered as they appear in the paper. **All comment forms should be submitted to the AESO by August 5, 2005.**

The development of this discussion paper took longer than initially planned. The AESO now proposes the following amended schedules for conclusion of consultation on these matters. The AESO is open to condensing this schedule, if possible.

1. Jul 22, 2005 **Discussion paper** (attached to this letter) distributed, along with a stakeholder comment form.
2. Aug 5, 2005 **Stakeholder comments** to be provided on the AESO's July 22 discussion paper.
3. Aug 19, 2005 **Comment matrix** distributed by AESO as summary of views expressed in August 5 stakeholder comments.
4. Sept 7, 2005 **Consultation meeting** to be provided with any additional comments in response to the AESO's summary, other parties' comments, or based on stakeholders' own positions.
5. Sept 19, 2005 **Stakeholder comments** to be provided with any additional comments in response to the AESO's summary, other parties' comments, or based on stakeholders' own positions.
6. Sept 26, 2005 **Comments Matrix** distributed by AESO as summary of views expressed in Sept 19 stakeholder comments and including responses by AESO.
7. Oct 19, 2005 **AESO proposal** distributed to advise parties of the AESO's position

The AESO advises stakeholders that it expects to identify which stakeholder provided each comment in its summary. **The AESO also assumes that if stakeholders do not provide comments, they are indifferent at this time to the points raised in the discussion paper.**

Comments are to be provided to John Martin at john.martin@aeso.ca and copied to Karen Mazuryk at Karen.Mazuryk@aeso.ca. If you have questions on the export, import, and merchant interconnection tariff development discussed in the paper or on the consultation process, please contact John Martin at (403) 539-2465 or Karen Mazuryk at (403) 539-2590 (both in Calgary) or by e-mail at the above addresses.

All information on this consultation is available on the AESO's website by following the path Quick Links ► Current Regulatory Activities ► AESO Export, Import, and Merchant Interconnection Tariffs Consultation.

Yours truly,

*[original signed by]*

Robert Senko  
Director, Regulatory

cc: John Martin, AESO  
Karen Mazuryk, AESO  
Colleen Fairhead, AESO  
Jerry Mossing, AESO  
Cliff Monar, AESO

Attachments



## **Alberta Electric System Operator (AESO) Discussion Paper on Export, Import, and Merchant Interconnection Tariff Development**

July 22, 2005

### **1 Background**

On June 29<sup>th</sup>, 2005 the Alberta System Operator (AESO) held a stakeholder consultation meeting to discuss Export, Import, and Merchant Interconnection Tariff Development. Along with representatives from the AESO's Regulatory, Market and Operations departments, the following parties attended: AltaGas, Alberta Energy and Utilities Board (EUB), Alberta Department of Energy (ADOE), ATCO Power, BP Canada, British Columbia Transmission Corporation (BCTC), Candela Energy, Cities of Red Deer and Lethbridge, Direct Energy, ENMAX, Independent Power Consumers Association of Alberta (IPCAA), Montana Alberta Tie Line (MATL), National Energy Board, Plava Consulting, Powerex, SaskPower, TransAlta, TransCanada Energy, and Utilities Consumer Advocate (UCA).

The purpose of this consultation process is to support the development of export, import, and merchant interconnection tariffs to meet the needs of customers of the AESO and to fulfill Transmission Regulation requirements. The purpose of the June 29<sup>th</sup> meeting itself was to establish a comprehensive list of all operating/market, tariff, and merchant interconnection issues. It was also to have all parties come to a common understanding of issues

The desired outcome from the consultation process is the development of firm export and import tariffs and merchant transmission tariff(s). Additional information on this issue and consultation process can be found on the AESO's website by following the path Quick Links ► Current Regulatory Activities ► Export, Import, and Merchant Interconnection Tariffs Consultation.

The AESO expects to file the export, import, and merchant interconnection tariffs later in 2005 potentially as a stand-alone application, which could include a negotiated settlement or a litigated process, for rates to be effective in 2006. Alternatively, the tariffs could be included as part of the AESO's 2007 General Tariff Application (GTA), expected to be filed at the end of 2005, for rates to be effective in 2007.

### **2 Transmission Regulation**

Meeting Transmission Regulation requirements for export, import, and merchant interconnection tariffs is one reason for this consultation process. The Transmission Regulation requirements related to these tariffs can be summarized as follows:

#### **Planning Requirements**

- (a) 20-year and 10-year plans must include exports and imports [3(a)(i, ii, iv), 4(1)(a)(i, ii, iv)]
- (b) The transmission system must be expanded or enhanced for exports and imports at or near interconnection path ratings [8(1)(g)]

- (c) AESO must make rules for needs documents, planning, and processing for enhancements or upgrades for exports and imports in excess of existing interconnection path ratings [8(1)(h)]
- (d) Merchant facility proponents must assist the AESO in preparing needs documents [15(3)]

#### **Losses**

- (e) Location-based loss charges or credits apply to firm imports, opportunity exports, and opportunity imports [22(1)(b), 22(2)]

#### **Open Access to Merchant Lines**

- (f) Merchant proponent must follow AESO rules to provide open access and file terms and conditions respecting open access with the EUB [15(5)(a)]
- (g) Merchant lines must be available in an open and non-discriminatory manner [15(5)(b)]

#### **Export Tariff**

- (h) Exporters must pay just and reasonable costs of the transmission system [30(a)(i)]

The Transmission Regulation includes no additional specific requirements for export tariffs, beyond the losses and merchant line use requirements mentioned in (e) and (f) above. However, the Regulation implies alignment of firm export and firm domestic load tariffs in subsection 30(a)(i), and of opportunity export and opportunity domestic tariffs in subsection 22(2).

#### **Import Tariff**

The Transmission Regulation includes no specific requirements for import tariffs, beyond the losses and merchant line use requirements mentioned in (e) and (f) above. However, the Regulation implies alignment of firm import and firm domestic supply tariffs in subsection 22(1), and of opportunity import and opportunity domestic tariffs in subsection 22(2).

### **3 Issues**

As already stated, the purpose the June 29<sup>th</sup> meeting was to establish a comprehensive list of all issues and to have all parties come to a common understanding of issues. Therefore, the issues section of this paper is divided into the same three sections used for discussion at the meeting, namely, operating/market issues, tariff issues, and merchant interconnection issues. Although all of these issues do not need to be resolved through this consultation process, it is important to have a basic understanding and identification of all of the issues including those that are directly and indirectly related. This understanding will aid the AESO and stakeholders to coordinate market rules, operations, and tariff design.

Attached to this discussion paper is a separate comment form which includes all the issues that have been identified as a priority, numbered as they appear in this paper. The AESO encourages stakeholders to use the comment form to indicate if they support, oppose, or are indifferent to the proposed approach to the issue being discussed. The AESO also encourages stakeholders to provide comments to further facilitate the next steps of this process. **All comment forms should**



**be submitted to the AESO by August 5, 2005.** The AESO will then distribute a comment matrix by August 19, 2005, which will be an aggregate of all comments received from stakeholders.

## **A Operating/Market Issues**

### **A-1 Transfer Capabilities — First Contingency Transfer Limit**

#### **Summary of Discussion:**

The participants discussed that reliable transfers to and from Alberta must respect reliability criteria. Specifically, voltage stability, voltage deviation and impacts to other systems must be examined. Transfer limits are being dealt with in another AESO process and will be finalized through the AESO Rules process.

Definitions for firm, non-firm, and interruptible service were discussed. It was agreed that definitions for these types of service need to be clear and consistent. These three terms are defined elsewhere by either the Western Electricity Coordinating Council (WECC) or the National Electric Reliability Council (NERC). However, neither define “opportunity” service.

The terms as defined by the Federal Energy Regulatory Commission (FERC) are:

#### ***Curtailed***

A curtailment is a reduction in firm or non-firm transmission service due to a result of system reliability conditions.

#### ***Interruption***

An interruption is a reduction in non-firm transmission service due to economic reasons.

#### ***Firm Transmission Service***

Firm Transmission Service can be curtailed due to a result of system reliability conditions, but can not be interrupted due to economic reasons.

#### ***Non-Firm Transmission Service***

Non-Firm Transmission Service can be both curtailed due to a result of system reliability condition and can be interrupted due to economic reasons.

#### **AESO Views**

The above definition of firm service aligns with the AESO’s current demand and supply services. The above definition of non-firm service aligns with the AESO’s current opportunity services. The AESO proposes to continue to use the current term “opportunity” to indicate non-firm transmission service as defined above.

1. The FERC pro forma Open Access Transmission Tariff definitions for Firm and Non-Firm Transmission Service will be used for the AESO’s Firm and Opportunity Services, respectively.



This proposal is numbered and presented as above in the stakeholder comment form included with this discussion paper, where parties can indicate support or opposition and provide additional comments.

## **A-2 Transfer Capabilities — Dynamic ATC**

### **Summary of Discussion:**

The meeting participants discussed that the introduction of additional considerations if transfer limits lead to a requirement to calculate transfer limits dynamically (less than one hour). The AESO also explained that nomograms are used in the WECC to provide reliable transfer limits based on multiple operating conditions. A nomogram is a graphical representation or calculating device, usually a two-dimensional diagram designed to allow the approximate graphical computation of a function. A nomogram typically has three scales: two scales represent known values and one scale determines the result.

### **AESO Views:**

This issue of calculating ATC dynamically is being dealt with through a separate consultation process (the ATC Export Capacity Consultation Process) to be finalized through the AESO Rules process. Therefore it is not included in the stakeholder comment form.

## **A-3 Transfer Capabilities — Remedial Action Schemes (RAS)**

### **Summary of Discussion:**

The meeting participants discussed that export transfer capabilities can be increased using Generator Remedial Action Schemes (GRAS). It is likely that in the long-run, the procurement of GRAS would need to be done through a competitive process. Import transfer capabilities would also need to be increased using Interruptible Load RAS (ILRAS). This issue is also being dealt with through a separate AESO and Stakeholder process as is automatic switching of transmission elements to enhance both imports and exports. However, the issue of which parties should pay for a RAS is an issue that is relevant to the transmission tariff discussion.

### **AESO Views:**

The issue of GRAS is being dealt with through a separate AESO and stakeholder consultation process (the ATC Export Capacity Consultation Process) to be finalized through the AESO rules process. This tariff consultation process will deal with the specific issue of who should pay for the RAS.

The Transmission Regulation requires load customers to pay for all costs of the transmission system, including operating reserves. GRAS (and ILRAS) are included as operating reserves, and would therefore be paid for by all load customers. As firm export tariffs are to align with domestic load tariffs, these costs would also be recovered from firm export customers.

2. The costs of GRAS would be recovered from all load and export customers.

#### **A-4 Transfer Capabilities — Generators in Operation**

##### **Summary of Discussion:**

The meeting participants discussed the issue that generators can contribute to reliability, which includes increases to the Alberta Transfer Capability (ATC). The AESO and meeting participants questioned who has the rights to this increased ATC. Should the generators who create the benefit directly receive the benefit? There must be assumptions made about generator participation in the energy market when defining ATC. A product such as Export Must-Run (XMR) service can provide improved transfer levels by providing certainty of dispatch.

##### **AESO Views:**

This issue of the impact of generators in operation on ATC is being dealt with through a separate consultation process (the ATC Export Capacity Consultation Process) to be finalized through the AESO Rules process. Therefore it is not included in the stakeholder comment form.

#### **A-5 Curtailments**

##### **Summary of Discussion:**

The meeting participants discussed the concern for reliability when addressing curtailments. Systems may be required for tracking and establishing the order of curtailment. Constraints management protocol efforts are underway and may require modification based on these outcomes. The AESO also discussed the treatment of multiple users of single and multiple lines.

##### **AESO Views:**

Although the economic or transmission rights portion of this issue is being covered in the transmission section, concern for reliability drives the curtailment order. As stated previously a curtailment is a reduction in firm or non-firm transmission service due to a result of system reliability conditions. The AESO proposes the following principles for determining curtailment order, consistent with the definitions discussed above.

3. Non-firm transmission service would be curtailed before firm service.
4. The more expensive the service, the later it would be curtailed relative to less expensive services.

#### **A-6 Operating Reserves**

##### **Summary of Discussion:**

The AESO explained to stakeholders that currently, Alberta carries operating reserves for export transactions and does not carry operating reserves for import transactions. WECC is examining the issues relating to reserves and interconnection schedules and may recommend changes at the end of this year. There also needs to be an overall assessment of the correct amount of reserves and correct reserve products.

##### **AESO Views:**



These issues are being dealt with through a separate process with WECC and therefore it is not included in the stakeholder comment form.

## **A-7 Market Impacts**

### **Summary of Discussion:**

The meeting participants discussed that rules are being developed as a result of the new wholesale market policy framework from the government's policy paper titled *Alberta's Electricity Policy Framework: Competitive – Reliable – Sustainable*, dated June 6, 2005. As stated on page 31 of the Policy Paper "To the extent possible, imports are to be treated the same as intra Alberta generators". It is expected that most changes can be accommodated by the AESO rules process.

### **AESO Views:**

This issue is being dealt with through the AESO Rules process and therefore it is not included in the stakeholder comment form.

## **A-8 System Administration**

### **Summary of Discussion**

The AESO discussed the likely possibility of the requirement for an Open Access Same-time Information System (OASIS) or a similar type system to manage requests on a first-come first-served basis.

BCTC and SaskPower both use an OASIS. The AESO discussed the issue that there would be some period of time required for implementing a system. A lag could therefore occur between approval of tariffs that would require an OASIS and actual implementation of those tariffs after an OASIS is put in place.

The meeting participants asked if the AESO would implement an OASIS and what would be the trigger for the AESO to take that action? What is the cost associated with implementing an OASIS? Can the AESO not manage without that type of a system? Could the AESO not continue to operate like they do with the opportunity import/export tariff and working with the BCTC and their OASIS system (oversubscription resolved on the BCTC side)? How would it be any different with a firm tariff? Some participants stated that in this case simple is better and that the AESO should not spend a lot of money on a system if it is not warranted. The meeting participants also stated that the AESO manages without an OASIS type system for opportunity service. The question of who should pay for the system resulted from the discussion.

The meeting participants also discussed other system controller software and operating policies, such as a system to enable real-time and the dynamic calculation of ATC. This specific issue is being dealt with through another process and development is underway. The question of who should pay for the system developed from the discussion.

The AESO responded that it believes that perhaps the existence of MATL would be a trigger for implementing an OASIS type system. The cost of the required system would depend on volume



and the complexity of the transaction. It is not just the cost of the system itself, but the staff requirement to run the system and settle the transactions.

### **AESO Views**

The AESO does not consider it appropriate to incur the costs of an OASIS system before customers exist that actually need the system. An OASIS would require about six months to implement, and the AESO proposes to incorporate a specific lag into the implementation of the tariff. This lag would give customers the comfort that the infrastructure will be in place to allow them to participate in the transmission service, while at the same time cost will not be incurred until there are customers subscribing to the service

5. The AESO proposes that an OASIS be implemented six months (an estimate at this time – the AESO will need to investigate further to be certain of the timeframe required) after the first customer commits through a contract that would require the AESO to implement an OASIS type system.

The AESO considers that an OASIS would benefit both pool participants and transmission system customers. The costs of an OASIS should therefore be split between non-transmission and transmission customers. Firm export customers would pay on a similar basis as domestic load customers, for alignment of the tariffs as discussed above.

6. Cost recovery for the OASIS system and its associated yearly operating costs be split between the trading charge (non-transmission) and load and export customers (transmission).

## **B Tariff Issues**

### **B-1 Cost Basis**

#### **Summary of Discussion:**

Meeting participants discussed the different models that could be used for the basis of cost recovery. The first model discussed was the **point-to-point service** model, where the cost of transmission of capacity and energy is determined from a designated Point of Receipt to a designated Point of Delivery. The second model discussed was the **network service** (injection-withdrawal) model, where the cost of transmission of capacity and energy is determined from a non-designated resource to a designated Point of Delivery, or from a designated Point of Receipt to a non-designated load. This is the model that is currently used in Alberta for all transmission services.

A third model, for **wheel-through service**, could apply where the transmission of capacity and energy is from a designated Point of Receipt at the Alberta border to a designated Point of Delivery at the Alberta border, and neither generation or load are within Alberta. However, initially the AESO will focus on services either exporting from and importing into Alberta, and will defer developing wheel-through service tariffs, if required, for a later application.



Some meeting participants proposed the possibility of having both models work together (point-to-point service model and the network service model) and giving customers the choice between rates on either model. Other meeting participants responded by stating that they do not think that the AESO should provide a choice for customers between the two models. A combination of the two models might work, if they are for different services. For example, the point-to-point model might work for export and the network service model might work for imports. There should not be cross-subsidization or any incentive for one kind of transaction over another.

The AESO responded to the above discussion by stating that it would not want the tariff to influence customers' decisions to whether to export or to serve domestic load. The AESO's position at this time is that it does not seem appropriate to give customers a choice of which structure of rate they would like to pay, as the customers would always choose the cheaper of the rates and lead to an under recovery of rates and or a cross-subsidization between rates.

### **AESO Views:**

**Import services** — As discussed in the section on the Transmission Regulation, import services are to align with domestic supply services. Domestic supply services are currently structured as network services with a designated point of supply (the generator) and a non-designated load. The AESO considers an import service should be structured similarly, where the designated point of supply is the point of import.

**Export services** — Also as discussed in the section on the Transmission Regulation, export services are to align with domestic load service. Domestic load services are currently structures as network services with a non-designated point of supply (the Power Pool) and a designated load. For export services, the AESO expects both the point of supply (a generator) and the point of delivery (the point of export) would be designated. Therefore either a point-to-point or a network service tariff model could be used.

For better alignment with the domestic load service, and to not influence a customer's choice of whether to generate for domestic service or for export, the AESO proposes that export service be provided on a network service model as well.

The AESO therefore proposes:

7. Export and import services be provided on a network service (injection-withdrawal) model.

### **Topic: B-2 Cost Allocation**

#### **Summary of Discussion:**

The meeting participants discussed the alignment of export and import services with domestic load and domestic supply services, respectively, implied in the Transmission Regulation.

The AESO would prefer to deal with a limited number of new export and import tariffs options, especially if such options would be of interest to only a few parties. Some stakeholders said they



did not want the AESO to limit the number of options given the potential for multi-million dollar projects based on export and import services. There needs to be multiple options and the AESO can not expect to go from a marketplace that currently has one rate for each of export and import to a marketplace with many options, and have many participants immediately commit to each option. However, options need to be available to customers early, so that customer can make choices which lead to future investment and, eventually, use of the new rates.

**AESO Views:**

The AESO proposes to allocate costs to firm export and import rates in the same manner as to firm domestic rates. Costs identified as demand and energy related will be allocated on demand and energy, respectively. The cost components identified in the AESO's GTA will be allocated to export and import in a manner that parallels their GTA allocation to domestic load and supply rates.

8. The AESO will allocate costs to export and import rates in a manner that parallels the GTA allocation to domestic load and supply rates.

**B-3 Nature of Service**

**Summary of Discussion:**

The meeting participants discussed the concept of how rates can vary between firm and opportunity (non-firm) rates. They also discussed that there needs to be a basis for priority distinctions, such as date of contract, contract provisions, rate provisions, open season auction, or over-subscription rationing. There was also discussion about the need for standard definitions for the characteristics of the service, so that import, export, and merchant interconnection tariffs are consistent with other jurisdictions. Meeting participants recognized that "firm" service is still interruptible for operational reasons.

**AESO Views**

Curtailments, interruptions, firm transmission service, and opportunity transmission service are all defined in the Operating/Market Issues Section A-1.

In general, the AESO considers that customers willing to commit for a longer period (such as a five-year contract rather than a one-year contract) should be eligible for a less-expensive rate. The concept of longer contracts providing a rate benefit is consistent with the AESO's investment policy for domestic load services, where customers receive more investment with a longer contract term. With customers committing for longer period, the AESO is provided with more advance information for planning purposes.

Beyond contract terms, a customer paying a premium should have priority over a customer paying less for a service. This is consistent with the AESO domestic Demand Opportunity Service (DOS) rates, where the more expensive DOS rate is curtailed only after the less expensive DOS rate has been curtailed.

The AESO therefore proposes:

9. Longer-term contract commitments will result in lower rates than shorter-term contract commitments.
10. Customer paying a premium for a service will be curtailed after customer who do not pay a premium. If customers are paying the same rate for the same service, the service will be curtailed pro-rata.

#### **B-4 Contract Terms – Duration and Provisions**

##### **Summary of Discussion**

The meeting participants discussed the concept of contract terms such as daily, weekly, monthly, seasonal, and annual and the need for contract provisions and options. Discussion also took place on whether, for merchant interconnections, the AESO should contract with the merchant line owner or with the shippers who use the line.

Some participants suggested that the rate for longer-term contracts (such as annual) should be discounted and short-term contracts (such as daily) should be at a premium. Alternatively, some participants felt the reverse should be the case and longer term contracts should be at a premium to short-term contracts.

##### **AESO Views**

11. At this time the AESO has not fully considered this issue. The AESO will develop its views further through research into other jurisdictions and through additional discussion with stakeholders. The AESO would appreciate receiving parties comments on this issue in the comment form.

#### **B-5 Structure of Rates**

##### **Summary of Discussion**

The meeting participants discussed that rates can be made up of a combination of demand charges (\$/MW), ratchet provisions, usage charges (\$/MWh or % of Pool Price), customer charges (\$/month), and transaction fees (\$/transaction). As well, these charges must be based on some sort of billing determinants, such as MW peak, coincident, average, on-peak, or off-peak, and MWh total, on-peak or off-peak. There was little discussion on both of these issues beyond the acknowledgement that they are aspects relevant to these issues.

##### **AESO Views**

The AESO proposes to structure rates for firm export and import in the same manner as firm domestic rates are structured. Costs identified as demand and energy related will be recovered through demand and energy charges, respectively. Similar billing determinants will be used to determine those charges as used in the AESO's domestic tariffs.

The AESO therefore proposes the following:

12. Export and import tariffs will be structured similarly to domestic load and supply tariffs, and will use similar billing determinants.

## **B-6 Seams**

### **Summary of Discussion**

The meeting participants discussed alignment with tariffs in neighbouring jurisdictions (British Columbia, Pacific Northwest, and Saskatchewan). In particular, the AESO raised the possibility of “standoff” issues, where a customer purchases “firm” capacity in one jurisdiction, but does not get the corresponding “firm” capacity in the neighbouring jurisdiction. There is also a need for avoiding such problems as tariff “pancaking” (an aggregate of transmission tariffs across various jurisdictions, which may not reflect an appropriate proportion of the transmission costs of the systems that are used).

One participant suggested that market policy changes may potentially minimize stand-off issues, as Alberta customers would have confirmed their capacity ahead of other markets. There was some concern expressed by another meeting participant that these market changes might create or magnify seams issues if Alberta is T-2 (hours) and other jurisdictions are T-30 (minutes).

### **AESO Views**

13. At this time the AESO does not have a full assessment of what seams issues may arise with the tariff proposals included in this discussion paper. The AESO therefore intends to discuss these matters more fully with the neighbouring jurisdictions (BCTC, Northwestern Energy, and SaskPower) for alignment of tariffs and to mitigate seams issues, before introducing new tariffs. Nevertheless, the AESO welcomes stakeholder comments on the potential seams issues.

## **B-7 Losses**

### **Summary of Discussion**

The meeting participants discussed that payment of loss charges and receipt of credits relate to export, import, and opportunity services. The participants also discussed that loss factors are to be determined under AESO Rules, while the calibration factor has been included in the AESO’s 2006 GTA to be determined under the AESO tariff.

### **AESO Views**

Loss factors for the existing BC and Saskatchewan ties have been calculated and discussed with stakeholders as part of the 2006 loss factor methodology under the AESO Rules. The loss factors will be effective January 1, 2006.

Loss factors for merchant interconnections will be calculated in a similar manner, once the in-service date and loads on a merchant interconnection are reasonably known.

The AESO has proposed in its 2006 GTA that the calibration factor will apply equally to all services which pay loss factor charges. It is expected the EUB will issue its decisions on the AESO’s 2006 GTA by September 1, 2005.

As both loss factors and calibration factors are being addressed through AESO Rules and GTA processes, respectively, no additional consultation is required in this process.

## **B-8 Deferral Accounts**

### **Summary of Discussion**

Any difference between forecast and actual costs and revenues for the AESO is currently recovered from domestic load and supply customers through a deferral account and the AESO's deferral account Rider C. Starting in 2006, the deferral account will apply only to domestic load customers (with losses differences being addressed through the calibration factor for supply customers as discussed in the preceding section). The participants discussed that there is an issue of allocation, reconciliation, and recovery of costs for firm export services.

### **AESO Views**

As firm export services are expected to parallel domestic load services, the AESO considers similar deferral account treatment should be established. As well, in as much as merchant interconnection services may also include some components similar to domestic load services, merchant tariffs may also include a deferral account.

The AESO considers that firm import services (a parallel to domestic supply services) and opportunity services should not incur any deferral account treatment.

The AESO therefore proposes the following:

14. The AESO proposes that firm export and merchant transmission tariffs be subject to deferral account treatment in a manner similar to DTS.

## **C – Merchant Interconnection**

### **C-1 Facility Costs**

#### **Summary of Discussion**

The meeting participants discussed the concept of the Merchant Transmission owner paying a full contribution for all costs relating to the existing Alberta Interconnected Electric System (AIES). Specifically, to be consistent with section 12(1)(a) of the Transmission Regulation, all high voltage switching equipment, buswork, and associated land to provide interconnection to the AIES, beyond the connection point, will be owned by the incumbent TFO.

The meeting participants also discussed the concept that there could be eligibility for investment with appropriate contractual obligations as well as the potential for AESO's use of merchant facilities. Some participants expressed the view that with the appropriate contract obligations, contract holders should receive the same / similar benefits as other contract holders. Meeting participants also discussed that if a merchant transmission owners paid for all of the direct / local interconnection costs there would not be a requirement for a contract term obligation. Participants brought up the issue that when a merchant line is constructed there could be benefits (additional ATC) and the rights to the subsequent benefits were questioned.



### **AESO Views**

The AESO proposes the following:

15. The merchant transmission owner pays all of the direct / local interconnection costs as a full contribution with no eligibility for investment and no contract term obligation beyond the compliance with the Terms and Conditions of the AESO Tariff.
16. The merchant transmission owner pays a system contribution similar to Supply Transmission Service (STS) customers as per Article 9.9, Terms and Conditions, of the proposed AESO 2006 GTA.

### **C-2 Open Access**

#### **Summary of Discussion**

There was little discussion on Open Access aside from the fact that there needs to be an open season auction or another transparent mechanism for the capacity of the interconnection associated with the merchant transmission line. Also, the issue of availability of capacity remaining after open season was mentioned.

#### **AESO Views**

The AESO is in the process of drafting open access rules as part of the AESO rules process.

### **C-3 AESO Registration with FERC**

#### **Summary of Discussion**

The meeting participants seemed to agree that the AESO would not need to register with FERC for the proposed Merchant Transmission line. Rather, the owner of the merchant transmission line needs to register with FERC. Some meeting participants mentioned that the AESO would probably need to participate in an operating agreement with the connected jurisdiction. In the case of the MATL, the connected jurisdiction will be Northwestern Energy Ltd, in Montana. One participant mentioned that the AESO should investigate any requirements of the Canada-United States Free Trade Agreement.

#### **AESO Views**

The AESO will further investigate what requirements there are for an operating agreement or any other type of agreement with neighboring jurisdictions or regulatory bodies. The AESO will investigate if there are any requirements under the Canada-United States Free Trade Agreement.

### **C-4 Customer Interaction**

#### **Summary of Discussion**

Meeting participants discussed the AESO's potential interaction and relationship with the shippers and with the merchant facility transmission owner. A representative from the proposed MATL stated that it will not own the energy. MATL is a transport company and they believe the AESO would probably need contracts with the shippers of the energy and that MATL will have



contracts with the shippers to use the line. Currently, MATL is of the understanding that they will pay all of their direct interconnection costs.

#### **AESO Views**

The AESO believes that it will need contracts with both the shippers of the energy and with MATL.

The AESO proposes the following:

17. The AESO will need contracts with the shippers who will pay the import and export rates for use of the AIES, beyond the point of interconnection of the merchant transmission line.
18. The AESO will need contracts with the merchant transmission line owners in accordance with the AESO Tariff Terms and Conditions.

#### **Section 4 Next Steps**

The AESO apologizes for the delay in providing this discussion paper to stakeholders. Interested parties are invited to provide further comments on the proposals and alternatives discussed in this paper using the attached comment form. Stakeholders are requested to return all comments to the AESO by **August 05, 2005**. The AESO will post all comments on its website and distribute to stakeholders by **August 19, 2005**.

Comments are to be provided to John Martin at [john.martin@aeso.ca](mailto:john.martin@aeso.ca) and copied to Karen Mazuryk at [Karen.Mazuryk@aeso.ca](mailto:Karen.Mazuryk@aeso.ca). If you have questions on the export, import, and merchant interconnection tariff development discussed in this paper or on the consultation process, please contact John Martin at (403) 539-2465 or Karen Mazuryk at (403) 539-2590 (both in Calgary) or by e-mail at the above addresses.

Following the posting of stakeholder comments, the AESO expects to meet with stakeholders again to further discuss comments and alternatives for export, import, and merchant interconnection tariff development.

All information on this consultation is available on the AESO's website by following the path Quick Links ► Current Regulatory Activities ► AESO Export, Import, and Merchant Interconnection Tariffs Consultation.