Export, Import, and Merchant Interconnection Tariff Development

John Martin, Regulatory

AESO Stakeholder Consultation Meeting

September 7, 2005 — Calgary

Agenda

- Consultation process review
- Purpose of meeting
- Transmission Regulation comments
- Tariff development comments

break

- Merchant facilities comments
- Discussion of possible rates
- Incremental export market comments
- Next steps and feedback

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Consultation Process

- Process to date
  - Jun 29 Stakeholder consultation meeting
  - Jul 22 AESO discussion paper
  - Aug 5 Stakeholder comments received
  - Aug 22 AESO responses published
- Allow filing of export, import, and merchant interconnection tariffs later in 2005
- Align where necessary with other processes
  - Review and development of market rules
  - Export Working Group (ATC, XMR)

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Purpose of Today's Meeting

- Review of stakeholder comments on July 22 discussion paper and AESO responses of August 22
- Discussion of matrix of possible rates included with August 22 responses
- Continue discussion on seams issues and other matters
- AESO is seeking additional feedback and comments from stakeholders in several areas

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Transmission Regulation Merchant Line Requirements

- AESO in process of drafting rules for open access to merchant lines [15(5)(a)]
- Draft rules include:
  - Merchant line proponent must provide open access by auction or other transparent process, must provide public notice, and must publish results of process
  - Capacity which remains available may be re-offered in subsequent process under similar rules
  - Access to merchant transmission facility must be available to other customers
  - If merchant transmission facility is decommissioned, AESO has right to purchase at fair price

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Transmission Regulation Tariff Implications

- AESO interprets Transmission Regulation as implying alignment between:
  - Non-recallable demand and non recallable export tariffs
  - Non-recallable supply and non-recallable import tariffs
  - Opportunity demand and opportunity export tariffs
- Alignment does not mean exactly the same charges, but that rate structure and billing determinants would be similar
- Actual rates and terms and conditions for each domestic or export-import service would reflect the cost basis and nature of that specific service

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Transmission Development Policy Tariff Implications

- Transmission Development Policy Paper (p. 10)
  - *The **opportunity export tariff** will continue to recover a portion of the embedded costs of transmission wires, losses and ancillary services, while respecting the established practices for inter-regional electricity trade. Such non-firm transmission service should be priced at a discount from the firm transmission service rate.*
  - ***Firm export service** may also be developed, with the expectation that this service will be priced at the same level as firm service in Alberta.*

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Definitions of "Firmness"

- FERC definitions don't align with current Alberta terminology
- AESO suggests:
  - **Non-recallable** export and import services (XTS and ITS, and XMS and IMS)
    - Similar to non-recallable DTS and STS
    - Curtailed only due to system reliability conditions
  - **Opportunity** export and import services (XOS and IOS)
    - Similar to recallable DOS
    - Curtailed before non-recallable services
- The AESO does not currently interrupt transmission service for economic reasons

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Proposed Rate Codes

- Non-recallable services:
  - **XTS** "Firm" Export Transmission Service
  - **ITS** "Firm" Import Transmission Service
  - **XMS** "Firm" Export Merchant Service
  - **IMS** "Firm" Import Merchant Service
- Opportunity services (available over both non-merchant and merchant facilities):
  - **XOS** Export Opportunity Service
  - **IOS** Import Opportunity Service
- Note change from ETS, EMS, and EOS to XTS, XMS, and XOS

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Cost Recovery for GRAS

- Addressed by EUB in Decision 2005-096 (p. 37)
  - *Accordingly, if the AESO were to enter into a RAS arrangment during the term of the Tariff, the Board would expect that the costs of this arrangement would be allocated to DTS customers. The Board may consider other cost allocation arrangements only after the rated design capability of the existing intertie facilities has been restored.*
- If XTS pays embedded costs of the transmission system as DTS does, then XTS would pay a share of GRAS costs

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Curtailment Due to System Reliability Conditions

- Dispatch priority would remain distinct from curtailment priority
- AESO proposes export and import curtailment "just before" comparable domestic curtailment
  - OPP 801 on Supply Shortfall currently contains 30 curtailment steps
  - DTS is curtailed at existing Step 29; XTS would be curtailed between existing Steps 28 and 29
  - DOS is curtailed in Steps 6-8; comparable XOS would be curtailed before these steps
  - Curtailment priority distinctions may be available with XOS rates (such as DOS 7 Minutes, DOS 1 Hour, and DOS Term rates for Demand Opportunity Service)

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Implementation of OASIS

- An OASIS or OASIS-like system will be required at some point as the number and variety of export and import products increases
- There will be a time lag between the decision to implement and the actual availability of the system (estimated to be about 6 months)
- BCTC has always used an OASIS
- To reduce uncertainty the AESO will include an OASIS or OASIS-like system in its 2007 GTA

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Cost Recovery of OASIS

- OASIS costs would be recovered from all export and import services (XTS, ITS, XMS, IMS, XOS, and IOS)
- No OASIS costs would be recovered through the trading charge or from domestic demand and supply services
- The estimated annual cost of a suitable OASIS or OASIS-like system is on the order of $500,000 per year

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Cost Basis

- Non-recallable XTS and ITS
  - Network service (injection-withdrawal) model
  - Non-merchant lines currently included in TFO rate base with costs shared among all customers
- Non-recallable XMS and IMS
  - Point-to-point model
  - Merchant line users pay costs for use of merchant line and for portion of AIES which they actually use
- Opportunity XOS and IOS
  - Network service model
  - Primarily covers variable costs which would not differ between network service and point-to-point models

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Cost Allocation to Export, Import, and Merchant Services

Cost Component	Non-Recallable						Opportunity		
	DTS	XTS	XMS	STS	ITS	IMS	DOS	XOS	IOS
Wires									
– Bulk System	●	●	○	—	—	—	○	○	—
– Local System	●	●	○	—	—	—	○	○	—
– Point of Connection	●	—	—	—	—	—	—	—	—
Ancillary Services									
– Operating Reserves	●	●	●	—	—	—	○	○	—
– TMR	●	●	●	—	—	—	○	○	—
– Other AS	●	●	○	—	—	—	○	○	—
Losses	—	—	—	○	○	○	—	○	○
Other Industry	●	○	○	—	—	—	○	○	—
General and Admin	●	○	○	—	—	—	○	○	—

● average cost ○ incremental or partial cost — no cost

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Cost Allocation Principles

- Non-recallable XTS and ITS rates would include costs similar to non-recallable DTS and STS rates
  - XTS includes wires, ancillary services, other industry, and general and administrative
  - ITS includes only losses
- Opportunity XOS rate(s) would include costs similar to opportunity DOS rates
  - XOS includes variable costs, losses, transaction fees, and contribution to fixed costs
- All rates except DTS pay interconnection costs as up-front contribution (not allocated costs)

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Cost Allocation Principles (cont'd)

- Opportunity IOS rate(s) have no comparable opportunity supply rates
  - IOS includes only losses
  - Are there any real cost distinctions between ITS and IOS?
- Rates will be designed on a cost-based structure, not value-based
  - Costs would be allocated to each rate in proportion to how each rate affects the cost components (that is, on a cost causation basis, to the extent practical)

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Rates and Contract Terms

- Different contract terms for the same service would result in different rates
  - AESO required to reinforce the transmission system to support exports and imports
  - Imports and exports would be included in AESO planning criteria, in accordance with Transmission Regulation
- Rates for non-recallable service would differ from rates for opportunity service
  - Costs attributed to each type of service would differ

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Curtailment and Priority

- Curtailment priority is distinct from dispatch priority
- Higher priority service will be curtailed after lower priority service
- Customers with the same priority service will be curtailed pro-rata

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Rate Structure

- Fixed costs would primarily be recovered through demand ($/MW) and customer ($/month) charges
- Variable costs would primarily be recovered through usage ($/MWh) and percentage of pool price charges
- Rate structure would align with directions for demand and supply rates in Decision 2005-096 on AESO's 2005-2006 GTA

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Charge Structure for Export, Import, and Merchant Rates

Cost Component	Non-Recallable						Opportunity		
	DTS	XTS	XMS	STS	ITS	IMS	DOS	XOS	IOS
Wires									
– Bulk System	MW MWh	MW MWh	MW MWh	—	—	—	MWh	MWh	—
– Local System	MW MWh	MW MWh	MW MWh	—	—	—	MWh	MWh	—
– Point of Connection	MW Month	—	—	—	—	—	—	—	—
Ancillary Services									
– Operating Reserves	%PP	%PP	%PP	—	—	—	%PP	%PP	—
– TMR	MWh	MWh	MWh	—	—	—	MWh	MWh	—
– Other AS	MW %PP	MW %PP	MW %PP	—	—	—	%PP	%PP	—
Losses	—	—	—	%	%	%	—	%	%
Other Industry and General and Admin	MW MWh Month	MW MWh	MW MWh	—	—	—	MWh	MWh	—

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Seams Issues

- AESO has met with BCTC and will meet with SaskPower to discuss seams issues
- Current opportunity export and import rates do not create seams
- “Firm” rates in two jurisdictions create potential seams relating to reserving capacity in both jurisdictions and possible cost “pancaking” or rate misalignment

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Seams Issues (cont'd)

- FERC-based tariffs may minimize cost seams but not capacity reservation seams
  - FERC-based tariffs do not align with "postage stamp" principle legislated in Alberta
  - FERC-based tariffs may simply create seams that parties know how to deal with
- AESO will attempt to mitigate seams as much as possible
- Clear identification of seams issues by stakeholders would be helpful

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Deferral Accounts

- Deferral Account Rider C
  - Would apply to XTS and XMS (similar to DTS)
  - Would not apply to ITS, IMS, XOS, or IOS (similar to STS and DOS)
- Calibration Factor Rider E
  - Would apply to all services which include a losses charge: ITS, IMS, XOS, and IOS (similar to STS and DOS)

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Merchant Facilities — Interconnection Costs

- Merchant transmission facility owner must pay all costs relating to a merchant line interconnection
  - Transmission Regulation Subsection 15(4)(a)
- Merchant interconnection would not be eligible for AESO investment
- Merchant interconnection would not incur any contract term obligations relating to the interconnection facilities (beyond compliance with AESO terms and conditions)

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Merchant Facilities — System Costs

- Point-to-point basis for XMS and IMS would include all costs (local and system) attributable to transmission service between the point of supply and the point of delivery
- XMS and IMS system capacity would therefore be available only to the level the existing system can accommodate
  - AESO will not invest in system enhancements for export and import capacity over merchant lines
  - System enhancements for additional capacity would be charged directly to the merchant facility owner under the point-to-point model

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Merchant Facilities — System Costs

- Opportunity service (XOS and IOS) over merchant lines would pay all incremental costs associated with such services, whether arising from operating or facility costs
  - AESO will not invest in facilities for opportunity services

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Merchant Facilities — Sharing

- If the local interconnection facilities are shared with other users, other users should share in the cost
  - Transmission Regulation Subsection 14(4)(b)
- If merchant line capacity is utilized by the AESO, the AESO should compensate merchant line owner
  - Transmission Regulation Subsection 15(2)(b)

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Merchant Facilities — Customer Interaction

- Shippers over merchant lines will contract directly with the AESO for export and import service
  - Merchant line owner could act on behalf of shippers
- The AESO will require contracts with the merchant line owner in accordance with the AESO terms and conditions of service
  - The terms and conditions will need to appropriately indicate which clauses apply to merchant line owners

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Incremental Export Market

- Southern Alberta generators could be provided with an “export contribution value” if system conditions allow increase in ATC
- Market-based approach discussed with Export Working Group
- Tariff-based approach may also exist
  - AESO contracts with and dispatches generators when exports necessary
  - Costs of contracts recovered through export tariff from all exporters (XTS and XOS)
  - Conceptually similar to TMR contracts

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Incremental Export Market (cont'd)

- Potential issues with tariff-based approach
  - Costs are unknown, and therefore could require deferral account treatment
  - Does not differentiate between exporters willing to pay for service and those not willing to pay
  - May create perception that AESO is intervening in the market, with adverse impact on pool price (from out-of-merit dispatch)
  - Would need EUB approval to implement
- Further discussion will be held with Export Working Group

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Discussion of Possible Rates

- See separate handout

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Process Alternatives

- Export and import tariffs require EUB approval
- Options:
  - Stand-alone application
    - Negotiated settlement
    - Litigated proceeding
  - As part of AESO 2007 GTA
    - Planned to be filed mid-December 2005
    - Effective date to be January 1, 2007
- Alignment with development of market rules and Export Working Group
  - Filing as part of 2007 GTA may allow better coordination with market rules development process

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Potential Next Steps

Sep 14, 2005 **Background and comment form** to be distributed by the AESO

Sep 19, 2005 **Stakeholder comments** to be provided to the AESO

Sep 26, 2005 **Comments matrix** distributed by the AESO as summary of views expressed in September 19 stakeholder comments and including responses by AESO

Oct 19, 2005 **AESO proposal** distributed to advise parties of the AESO's position

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Comments

- On today's discussion….
- On consultation process….
- On proposed schedule….

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AESO Regulatory Contacts

- John Martin, manager
  (403) 539-2465 — john.martin@aeso.ca
- Karen Mazuryk, senior analyst
  (403) 539-2590 — karen.mazuryk@aeso.ca
- Maureen Winslow, coordinator
  (403) 539-2463 — maureen.winslow@aeso.ca
- Information can be accessed on **www.aeso.ca** by following the path Quick Links ► Current Regulatory Activities ► AESO Export, Import, and Merchant Interconnection Tariffs Consultation

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