



December 13, 2005

Sent via e-mail

AESO Stakeholders
AESO 2005-2006 General Tariff Application

Dear Stakeholder:

Re: **AESO 2007 Rates and Terms and Conditions Discussion Papers**

On December 8, 2005, the AESO held consultation meetings with stakeholders to identify, review, and prioritize rates and terms and conditions issues to be addressed in the AESO's 2007 tariff application. Please find attached discussion papers relating to matters discussed at those meetings, and comment forms for you to use when providing feedback to the AESO.

The AESO notes that these discussion papers have been distributed a day later than promised during the meetings, and therefore adjusts the schedule of consultation process milestones as follows.

- Tue, Dec 13 **Discussion papers** distributed by the AESO on 2007 rates and 2007 terms and conditions.
- Tue, Dec 20 **Stakeholder comments** submitted in response to the AESO discussion papers and discussion at the consultation meetings.
- Fri, Dec 23 **Response matrices** of stakeholder comments and AESO responses distributed by the AESO.
- Wed, Jan 11 Second **discussion papers** distributed by the AESO.
- Tue, Jan 17 **Consultation meetings** to further develop rates and terms and conditions issues to be addressed in the 2007 GTA.

The AESO notes that discussion at the consultation meetings concluded that, as part of the January 17 consultation meetings, the AESO's proposed late February filing of its 2007 GTA would be considered. If matters which needed to be dealt with in the 2007 GTA were found to require additional time to more fully address, the filing date of the AESO's GTA could be extended beyond February. The AESO encourages stakeholders to consider the various proposals included in the attached discussion papers in that context, and to prioritize items to determine which ones need to be addressed in 2007 and which could potentially be deferred.

The AESO also encourages stakeholders to consider which items, if any, may lend themselves to a negotiated settlement. The AESO may consider a settlement approach for any of the proposals in the attached discussion papers which appear to have consensus support or opposition from stakeholders. This can be further discussed at the January 17 consultation meeting.

Please use the attached forms to provide comments to the AESO on the proposals in the discussion papers. Please return your comment forms to John Martin at john.martin@aeso.ca with copy to Ed Hucman at ed.hucman@aeso.ca.

If you have questions or comments in relation to the above, please contact John Martin at (403) 539-2465 or john.martin@aeso.ca, or Ed Hucman at (403) 539-2469 or ed.hucman@aeso.ca.

All information on these consultation processes is available on the AESO's website at www.aeso.ca by following the paths:

- Tariff ► Current Consultations ► 2007 Rates, and
- Tariff ► Current Consultations ► 2007 Terms and Conditions.

Yours truly,

[original signed by]

Heidi Kirrmaier
Vice President, Regulatory

cc: Ed Hucman, AESO
John Martin, AESO
Karen Mazuryk, AESO

Background

On September 14, 2005, the Alberta Electric System Operator (AESO) held a consultation meeting with stakeholders to identify rates issues to be addressed in the AESO's 2007 General Tariff Application (GTA). Further consultation on the 2007 tariff application was delayed due to the amount of work required to address the significant tariff changes directed in the Alberta Energy and Utilities Board's (EUB's) Decision 2005-096 on the AESO's 2005-2006 GTA, as well as other factors. A review of its schedule led the AESO to conclude a filing date of late February 2006 would be more practical for its 2007 GTA.

The EUB issued its Decisions 2005-131 and 2005-132 on the AESO's 2005-2006 GTA Refiling on December 6, 2005, and the AESO held a second consultation meeting on 2007 rates on December 8, 2005. Discussion at this second meeting incorporated considerations respecting matters raised during the AESO's 2005-2006 GTA proceeding, in the first consultation meeting, during the AESO's 2005-2006 GTA Refiling process, and in the EUB's decisions on those matters (specifically, Decision 2005-096 on the AESO's 2005-2006 GTA, Decision 2005-131 on the AESO's 2005-2006 GTA Refiling, and Decision 2005-132 on the EUB's Review and Variation of the Customer-Related POD Charge).

The AESO initially expected the rates consultation to include at least the following topics:

- (a) refinements to cost functionalization and allocation study;
- (b) potential development of separate rate classes addressing, for example, multiple-user PODs and short term back-up supply, and including AESO standard facilities for each rate class;
- (c) further unbundling of AESO rates;
- (d) ratchet level and duration; and
- (e) assessment of billing determinants.

The AESO also notes that separate consultation is being conducted on 2007 terms and conditions, import and export tariffs, and merchant interconnection tariffs. Although the rates to be included in the AESO's 2007 GTA must align with and complement those other components of the tariff, this paper will focus solely on rates matters.

The AESO encourages stakeholders to provide comments on the proposals included in this discussion paper using the attached comment form, to ensure that the consultation process is as effective and complete as possible. All comments received will be posted on the AESO's website, and should be considered to be public documents.

Information provided in the 2007 rates consultation and in the processes leading to approval of the AESO's 2006 tariff can be found on the AESO's website at www.aeso.ca, by following the paths:

- Tariff ► Current Consultations ► 2007 Rates
- Tariff ► Current Applications ► 2005-2006 Tariff Second Refiling
- Tariff ► Current Applications ► 2005-2006 Tariff Refiling
- Tariff ► Previous Applications ► 2005-2006 Tariff Application

Matters Settled in 2005-2006 Tariff Decisions

The AESO considers a number of matters to have been largely addressed in the EUB's decisions resulting from the AESO's 2005-2006 GTA proceeding. These include the following.

- (a) Of the rate design principles usually attributed to Bonbright, cost causation is the essential and primary one. Rate changes which are not supported by cost causation require substantive and irrefutable support from one or more of the remaining principles.
- (b) Further analysis of transmission system cost causation will continue to assign costs to three functions: bulk system, local system, and point of delivery.
- (c) Further analysis of transmission system cost causation will continue to classify:
 - bulk system costs as coincident demand and energy,
 - local system costs as non-coincident demand and energy, and
 - point of delivery costs as non-coincident demand and customer.
- (d) As a result of (b) and (c) above, the interconnection charge in the DTS rate will not be further unbundled beyond the structure approved in the AESO's 2005-2006 GTA Second Refiling.
- (e) The point of delivery customer charge will continue to be assessed at multiple-service substations using a substation fraction based on contract capacity.
- (f) Non-coincident demand charges will continue to be assessed using a billing capacity which incorporates a 90% 24-month ratchet.
- (g) Existing ancillary services will not be further unbundled or classified differently from the classification approved in the Decision 2005-096. New ancillary services will be assessed at the time they arise. At this time the AESO does not expect new ancillary services to be included in the AESO's 2007 forecast.
- (h) The Fort Nelson Demand Transmission Service (FDS) rate will continue to be based on the DTS rate with the local system charge tested against the cost of the ATCO Electric line providing service to Fort Nelson, as established in Decision 2005-096.
- (i) The STS rate will continue to charge just for losses using location specific loss factors, and for Regulated Generating Unit Connection Costs.
- (j) The Regulated Generating Unit Connection Costs will continue to be charged according to the schedule provided in Information Response BR.AESO-039 in the AESO's 2005-2006 GTA proceeding.

The AESO does not intend to revisit the fundamental principles underlying these settled matters in its 2007 tariff application. However, the AESO is interested in receiving comments from

stakeholders as to whether they support or oppose this approach. The AESO recognizes that, even if the AESO doesn't raise a particular matter in its tariff application, an intervenor may bring it forward through its own evidence or through questioning the AESO. The AESO has included these matters on the attached comment form, where parties can indicate support or opposition as well as explain the reasons for their positions.

Of additional note is that in reviewing the debate that occurred with respect to the AESO 2005-2006 GTA Refiling, the AESO believes that some of it may have been avoided if more complete information had been available on the impact of potential rate changes on each individual AESO service. The AESO therefore is considering submitting, as part of its 2007 GTA, billing data for all of the AESO approximately 480 DTS services. Where a DISCO is the customer for a service, the DISCO would be identified, but direct-connected services would not include customer identification by name. Instead, each service would be assigned an identifier number which would remain consistent throughout the 2007 GTA proceeding, but would be reordered in the AESO's next GTA to protect customer confidentiality.

The AESO therefore requests stakeholder comment on the following proposal:

2. The AESO will provide individual billing data for each DTS service as part of its 2007 GTA.

The AESO is particularly interested in any stakeholder opposition to this proposal, and the reasons for that opposition.

Transmission Cost Causation Study Refinements

The EUB included several directions in Decisions 2005-096 and 2005-132 with respect to matters relating to the *Transmission Cost Causation Study* included with the AESO's 2006 GTA. Some directions were fully complied with in the AESO's refiling and, in the AESO's view, warrant no further examination. Other directions were complied with, but the AESO noted that additional review may be appropriate in a future GTA. Still other directions were to be addressed in future applications. Directions which may benefit from or which require further review include the following (numbered and presented as in the Section 3 summaries of the AESO's 2005-2006 GTA Refiling and Second Refiling, respectively):

Decision 2005-096:

- 4C Conduct more thorough review of bulk system lines
- 4D Address TFO O&M costs that may be energy related
- 5A Collect bulk system demand costs using 12 CP approach
- 6 Amend DTS rate design to reflect directed classification
- 9 Reduce PSC to \$660/MW
- 10 Amend wording of PSC

Decision 2005-132:

- 5 Conduct further analysis of POD costs

As well, the AESO indicated during the 2005-2006 GTA proceeding that some aspects of the *Transmission Cost Causation Study* may warrant further analysis, specifically in the area of defining the boundary between local system and point of delivery, and in defining and aligning those costs to be consistent with “customer-related” costs as used in the AESO’s terms and conditions of system access service.

The AESO has reviewed with Reimer Consulting Group the work that could be completed to refine the *Transmission Cost Causation Study*, and proposes to undertake the following for inclusion in the AESO’s 2007 GTA.

- (a) Study major bulk paths to better determine the relationship between the time of maximum stress and the time of peak system load.
- (b) Study and recommend an approach to better differentiate between local system and point of delivery functions (including dual-use substations serving both load and supply customers).
- (c) Assess the cost drivers for the point of delivery function in more detail, and determine:
 - whether different sizes of substations or substations which utilize unconventional interconnections should be classified differently; and
 - whether the Substation Fraction should apply to demand as well as customer components of the point of delivery function.
- (d) Review cost and ownership issues relating to dual-use substations serving both load and supply customers, including impact of contributions paid to offset capital costs.
- (e) Review the treatment and impact of contributions in aid of construction, including alignment and correlation with the transmission system functions.
- (f) Studying operations, maintenance, and administration cost causation, and possibly use the results (rather than property) to classify TFO operations and maintenance expense.
- (g) Consider separating transmission facilities used for export and import from facilities used for domestic (within Alberta) transactions.

Additional refinements to the *Transmission Cost Causation Study* may be undertaken in future GTAs, including assessing the impact of customer responses on transmission planning and differentiating depreciation and return by vintage of assets. However, such additional work cannot be completed for the 2007 GTA, and lack of detailed data may further hinder such work for future GTAs.

The AESO does not intend to update the cost data for the *Transmission Cost Causation Study*, and will rely on the 2003 cost data utilized for the original study. The AESO notes that the

analysis in the study results in percentages of property by function and classification, and such percentages would not be expected to vary materially over a one or two year period.

The AESO would appreciate stakeholder comments on the *Transmission Cost Causation Study* refinements proposed to be included in the 2007 GTA, as provided above.

Single Coincident Peak Billing for Bulk System Demand

In Decision 2005-131 the EUB accepted the AESO's proposal to use a single coincident peak approach for billing the coincident demand component of the bulk system charge. However, during the 2005-2006 GTA and refiling process, several participant recommended a broader definition of peak coincidence.

The AESO's preliminary research has indicated general use of monthly peak coincidence as a transmission billing determinant, and no generally accepted broader definition was found. The AESO therefore proposes to continue the 1 CP approach for coincident demand billing in its 2007 GTA, especially since it will have little experience with 1 CP billing at the time of the 2007 GTA filing in February 2006. After more experience is gained, and after completing additional research and study, the AESO may propose a broader coincident peak definition in a future GTA.

The AESO therefore proposes the following:

5. Single monthly coincident peak billing will continue to be used in 2007 to recover the coincident demand component of the bulk system charge.

Additional Rate Classes

The AESO has previously had discussions with customers around the possibility of a rate applicable specifically for standby and short-term backup supply requirements. The AESO noted in its 2005-2006 GTA that it would consider developing a rate for such purposes.

However, the DTS rate design resulting from the EUB's decisions on the AESO's 2006 tariff — in particular the coincident bulk system demand component and the substation fraction applied to the POD customer component — may address some of the concerns underlying requests for a standby rate. The additional work proposed for the *Transmission Cost Causation Study*, including assessing the cost drivers for the point of delivery function in more detail, may further address those concerns.

The AESO suggests it would be appropriate to re-evaluate the need for a specific standby rate after preliminary results from the cost study refinements are available. The AESO therefore proposes the following:

6. If costs attributable to standby service are not appropriately recovered through the 2007 DTS rate, the AESO plans to include a specific standby rate in its 2007 GTA.

The AESO has also previously discussed with customers the possibility of separate rates for industrial and DISCO customers, or some similar distinction (perhaps based on supply configuration). The AESO recognizes that such a separation could be aggressively contested by whichever group ended up with the higher rate, and that any such distinction would need to be made on a solid cost causation foundation.

The AESO will explore establishing such a cost causation foundation with Reimer Consulting Group during preparation of refinements to the *Transmission Cost Causation Study*. If a cost basis for separate rate classes is evident, the AESO will proceed to develop such rate classes. However, the AESO expects that developing clear and defensible principles for the implementation of new rate classes, as well as relevant terms and conditions for concurrent investment policy provisions, may not be able to be completed before February 2006.

The AESO therefore proposes the following:

7. If a cost basis for separate rates for industrial and DISCO (or similarly differentiated) services is evident and defensible, the AESO will proceed to develop such rate classes for the 2007 GTA if practical.

Opportunity Rates

The rate levels for the AESO's Demand Opportunity Service (DOS) rates (7 Minutes, 1 Hour, and Term) have remained constant at \$3.00, \$5.00, and \$20.00 per MWh since those rates were introduced in 2000. The AESO understands that these levels were originally established based on margin sharing approaches from previous DISCO interruptible rate designs. The levels were not adjusted for the 50-50 allocation of costs between DTS and STS rates in 2000, and similarly have not been adjusted to reflect the allocation of all cost to the DTS rate in 2006 as required by the *Transmission Regulation*.

Given the changes to both the AESO's tariff and the energy market in general since 2000, the AESO considers that it may be appropriate to review DOS rate levels, especially for consistency with the AESO's other rates. On the other hand, there are currently only four customers utilizing the DOS rates, and DOS revenue is a very small component of the overall DTS revenue requirement. It may not be a priority to review DOS rate levels, if such a review would be contentious or extended.

However, on considering the aspects discussed above, the AESO proposes the following:

8. The AESO will review the rate levels for DOS 7 Minutes, DOS 1 Hour, and DOS Term rates for the 2007 GTA.

The AESO would appreciate stakeholder views on whether DOS rate levels should be included as one of the priority items to review for the 2007 GTA.

Matters Not Being Considered for the AESO's 2007 GTA

During discussions and consultations, stakeholders raised various matters for consideration by the AESO. For completeness, the AESO provides the following list of matters which it does not intend to pursue for its 2007 GTA. (These items are in addition to the additional refinements to the *Transmission Cost Causation Study* which will not be included in the 2007 GTA, as discussed in the section above on *Transmission Cost Causation Study Refinements*.)

- (a) At this time the AESO does not expect to pursue performance-based rates in this or any future GTA.
- (b) The AESO will not include the self-supply of ancillary services through a regulated tariff in its 2007 GTA.
- (c) The AESO will not include the purchase or sale of reactive power through a regulated tariff in its 2007 GTA.
- (d) The AESO does not propose to differentiate the transmission service received based on interconnection voltage level in its 2007 GTA.

Next Steps

The AESO would appreciate stakeholder feedback on the proposals discussed in this paper using the attached comment form. Stakeholders are requested to return all comments to the AESO by Tuesday, December 20, 2005. The AESO will post all comments on its website and distribute a response matrix with AESO comments by December 23, 2005.

Please provide your comments to John Martin at john.martin@aeso.ca and copied to Ed Hucman at ed.hucman@aeso.ca. If you have questions on the 2007 rate matters 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 john.martin@aeso.ca or karen.mazuryk@aeso.ca.

The AESO expects to file its 2007 tariff application in late February 2006, for rates to be effective on April 1, 2007.

All information on the 2007 rates consultation is available on the AESO's website by following the path [Tariff](#) ► [Current Consultations](#) ► [2007 Rates](#).