

## OPENING STATEMENT May 14, 2007

5 The AESO is a not for profit electric system operator. It must ensure all participants have reasonable access to Alberta's transmission system. In this Application, we have proposed a complete package of rates and tariff terms and conditions that will afford our customers access to the system on just and reasonable terms.

10 On one hand, what is being addressed in this proceeding is not new. System access service and the related tariff have existed since 1998, and prior to that it was simply embedded in the services provided by the utilities. On the other hand, from both a policy and legislative perspective, the context in which this service is provided has evolved significantly. So, while the system has continued to expand and the  
15 "lights have stayed on" through this evolution, various contractual and administrative elements have undergone extensive redesign to function within these frameworks. In any event, our approach continues to be to establish provisions for system access service that ideally will remain stable into the future.

20 With respect to applicable legislation, of note is that a new Transmission Regulation (AR 86/2007) came into force on April 11, 2007. In our view, this has the effect of validating the position we put forward in the Application in relation to the Revenue Requirement or Phase I component; that is, further review of the 2007 forecast Revenue Requirement through the Board's process is not necessary in order for it to  
25 be finally approved.

Sections 3(1)(b), 46(1)(b) and 48(1) of the regulation considered together, require the AESO to consult with stakeholders that are affected by the AESO's own costs, the cost of ancillary services, and the cost of losses. Once those costs have been  
30 approved by the AESO's Members, the Board must consider them to be prudent for the purposes of recovery through the AESO's tariff. Only if an interested person satisfies the Board that any of the AESO's own costs are imprudent, can they be disallowed.

35 As described in Section 2 of our Application, the AESO undertook an inclusive and transparent stakeholder consultation process (the "ABRP") with respect to its 2007 forecast own costs, ancillary services and losses costs, which were approved by the AESO's Members on October 19, 2006 . Together with the Board-approved 'Wires' revenue requirements of the TFOs, these costs make up the 2007 Revenue  
40 Requirement we are seeking to recover in this tariff. Since they were approved by the AESO's Members, no stakeholder has suggested that these costs are imprudent.

5 This leaves the Phase II part of the application, which encompasses the rate design and terms and conditions of system access service. The tariff includes provisions relating to system interconnection, and the rates that apply and the requirements that must be met both during the course of the service, and when service is terminated. We have designed all these components to work together and ultimately provide customers visibility of their obligations in exchange for continued and predictable service over the course of time, regardless of where a customer is located or precisely what facilities are put in place in order to provide ongoing service.

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15 Much of the written evidence revolves around the question of what constitutes a reasonable price for this service. As all parties understand, great reliance has been placed on the notion of cost causation in order to establish what is reasonable. Indeed, this is a long standing tenet of rate design for many regulated services. Yet it is also well understood that, when dealing with shared infrastructure such as the transmission system, there is no absolute right way either to prove how costs are caused, or a single acceptable way in which to directly translate cost causation into a tariff. The focus, we suggest, should therefore be on what is meaningful when assessing cost causation, while keeping an eye on the overriding objective of the exercise – that is, to arrive at just and reasonable prices and terms and conditions for service. Given there is no single formulaic manner in which to do this, to assess what is just and reasonable for the AESO's *collective* customer base necessarily requires significant judgment.

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25 The principle of cost causation largely looks to identify cost drivers – that is, what sort of usage will cause new costs to be incurred. Yet the service to any customer at any point in time is provided by existing facilities, the costs of which are largely fixed. Ideally, the tariff therefore provides a reasonable signal to users of the system to prevent no greater costs from being incurred than are necessary, while at the same time charging a fair and equitable amount for the service received. In other words, a reasonable cost based rate needs to be determined, even though in most circumstances it is not possible to determine specifically whether an individual customer's usage has contributed or will ultimately contribute to the addition of new facilities to the system.

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35 The transmission network is roughly broken into two components in order to evaluate cost causation. The System component – often referred to as the “bulk” system - is shared among all users, and it is therefore particularly challenging to allocate a particular cost responsibility to a particular user. The System has been planned and built, and indeed will continue to be planned and built, in consideration of meeting the needs of *all* customers over the long run.

5 The Point of Delivery, or “POD” component is that which is generally used by a  
single or very few individual customers. POD costs are recovered mainly through  
average rates, and may in some cases also be recovered through an upfront  
contribution at the time of interconnection. The costs of the physical POD facilities  
10 vary from service point to service point, and to a large extent they are a function of  
the relative proximity to the shared System, which naturally changes over time as  
the shared System expands. It is therefore especially important when considering  
the POD component of the tariff to keep in mind that despite the fact that service is  
15 provided through physical facilities or pieces of equipment, the pricing in the tariff is  
for system access *service* and is therefore appropriately averaged. Customers are  
not buying facilities or equipment; rather they are receiving a service, that varies little  
as facilities are changed or added to the physical system, or as other customers  
increase or decrease their usage. Even when customers pay an up front  
20 contribution, the contribution is simply considered part of the rates paid in order to  
obtain service on similar terms as other customers.

25 Over the course of this hearing - in an effort by parties to get to the bottom of cost  
causation - you will likely hear terms such as “correlation factors”, “R-squared”,  
“average and excess”, “coincidence factors”, “maximum cost functions”, “minimum  
intercepts”, and so forth. As a closing thought, we believe it is important and also  
ask you to keep in mind - as once noted by a court in a rate case<sup>1</sup> - “it is beyond the  
30 sphere of human ingenuity to reduce the regulatory function of ratemaking to a rule  
of mathematical certainty.”

Thank you. We look forward to answering your questions.

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<sup>1</sup> Hudson & M.R. Co. v. U.S., 33 F.Supp. 495, 496 (D.N.J. 1940) (Three Judge District Court), aff'd 313 U.S. 98, as referred to in Leonard Saul Goodman, The Process of Ratemaking, Volume II, p. 1003