



April 11, 2008

Submitted via Digital Data Submission System

Alberta Utilities Commission
Utilities Division
Fifth Avenue Place
4th Floor, 425 – 1st Street SW
Calgary, Alberta
T2P 3L8

Attention: Jamie Cameron, Application Officer

Dear Jamie:

Re: **AESO Reply Comments on AESO 2007 General Tariff Application Refiling
(Application Number 1558815)**

The Alberta Electric System Operator (AESO) provides the following reply comments on the above-noted application, in accordance with the schedule set out in the March 28, 2008 letter of the Alberta Utilities Commission (AUC).

The AESO has reviewed comments received on the refiling from AltaLink, the Alberta Sugar Beet Growers and Potato Growers of Alberta (ASBG/PGA), Dual Use Customers (DUC), the Industrial Power Consumers Association of Alberta (IPCAA), and TransCanada.

1. Refiled and Updated Tariff

In Information Response Comm.AESO-001 (f) filed on March 26, 2008, the AESO recommended an update to the approach to applying substation fractions proposed in its refiling on February 1, 2008. In the information response, the AESO's recommended applying the substation fraction to the fixed component and the demand tier sizes in the Demand Transmission Service (DTS) POD charge, the maximum investment level, and the Primary Service Credit in the AESO's tariff.

ASBG/PGA, DUC, IPCAA, and TransCanada all supported the approach recommended by the AESO. AltaLink did not comment on it. The parties who provided comments raised no concerns that require further revision of the proposed tariff, as discussed in more detail below.

In the course of reviewing parties' comments, the AESO has also noticed two minor omissions in the refiled terms and conditions of service that it proposes to correct in the final tariff when implemented. For completeness, those two corrections are detailed below.

In the Definitions and Interpretation Article 1.1, Demand Opportunity Service should be defined as:

“DOS” or “Demand Opportunity Service” means service under either Rate Schedule Demand Opportunity Service (DOS 7 Minutes), Demand Opportunity Service (DOS 1 Hour), or Demand Opportunity Service (DOS Term). [added text underlined]

DOS 1 Hour was inadvertently omitted from the definition in the AESO's tariff as originally filed in the 2007 General Tariff Application, but should have been included.

Direction 19 of Decision 2007-106 directed the AESO to remove the word “prepaid” from Article 9.4. In Article 9.4 of the refiled terms and conditions, “prepaid” was removed from the body of the article but was left in the article title. It will be removed in the final tariff, and the article will be correctly titled, “9.4 Operations and Maintenance”.

Therefore, the AESO submits its proposed tariff should be approved as refiled on February 1, 2008, and as amended to incorporate the updated DTS, FTS, PSC, DOS 1 Hour, and DOS Term rate schedule and the updated Article 9.6 provided in Attachment Comm.AESO-001 (j)-B filed on April 26, 2008 and the corrections noted above.

2. Consistency in Billing Determinants

ASBG/PGA noted that the DTS billing capacity billing determinants in Schedule Comm.AESO-001 (h)-A-5.6 totaled 114,648.1 MW-months, and in Schedule Comm.AESO-001 (h)-B-5.6 totaled 118,929.4 MW-months. ASBG/PGA suggested that “the AESO should provide the reasons for the difference in the Billing Determinants between the two cases and provide a supporting spreadsheet with the derivation of the proposed Billing Determinants in its Reply comments.”

The difference in the billing determinants was discussed in Information Response Comm.AESO-001 (g). The difference arises from the different approaches to applying of the substation fraction included in the refiled and in the information response schedules. Those differences are illustrated in the following example for a hypothetical 50 MW load service with a substation fraction of 0.50:

Demand Tier	As Refiled 1 Feb 2008	Comm.AESO-001 (h) (26 Mar 2008)	
		“A” Schedules	“B” Schedules
First 7.5 MW	7.50 MW	3.75 MW	3.75 MW
Next 9.5	9.50 MW	9.50 MW	4.75 MW
Next 23 MW	23.00 MW	23.00 MW	11.50 MW
Remaining MW	10.00 MW	10.00 MW	30.00 MW
Total	50.00 MW	46.25 MW	50.00 MW

In the February 1 refiling, the substation fraction was not applied to any demand tiers, and the total of the billing determinants included in the tiers equaled the total DTS billing capacity of 118,929.4 MW-months.

In the “A” series of schedules attached to Information Response Comm.AESO-001 (h), the first 7.5 MW of billing capacity was multiplied by the substation fraction, with no other impact on any other demand tiers. The billing determinant for the first demand tier was therefore reduced for DTS customers at shared substations, which the AESO referred to as equivalent billing capacity in the schedules. Billing determinants for other tiers remained unchanged, resulting in a total equivalent DTS billing capacity of 114,648.1 MW-months, a reduction of 4,281.3 MW-months.

In the “B” series of schedules attached to Information Response Comm.AESO-001 (h), the size of the demand tiers are multiplied by the substation fraction, and effectively reduced for DTS customers at shared substations. The result is that billing determinants are shifted from the lower tiers to the higher tiers, and the total DTS billing capacity remains at 118,929.4 MW-months.

This same effect was discussed by DUC on pages 3-5 of their comments.

The AESO submits the above explanation accounts for the difference in billing determinants between the “A” and “B” schedules of Information Response Comm.AESO-001 (h). As the billing determinants were calculated based on a forecast of monthly billing capacities for individual customers, the AESO considers that providing a spreadsheet with the derivation of the billing determinants would disclose detailed billing determinants for individual customers. The AESO consistently treats individual customer billing determinants as confidential information. The provision of monthly detailed individual customer billing capacities, even when not identified by customer name or account, would exceed the usual standards of disclosure for such information.

3. Application of Substation Fraction at Dual-Use Sites

ASBG/PGA commented, “The concern is whether the economies of scale inherent in the approved DTS POD cost function are directly applicable to the dual-use substation case.” IPCAA similarly commented, “IPCAA would note that the AESO has not discussed the impact of applying its proposed approach to PODs serving DTS and STS (“dual-use”) loads....This approach can and should be adopted for dual-use sites at this time, although IPCAA would also support a future examination of alternative mechanisms for sharing costs at dual-use sites.”

The AESO stated in its 2007 General Tariff Application (section 4.3.1, page 7):

Finally, the *Transmission Cost Causation Update* included a review of dual-use substation costs, but concluded the functionalization of such costs could not be determined from analysis of the TFO cost data. The *Update* recognized that in Decision 2005-096 the EUB approved dual-use substation cost sharing based on the substation fraction approach. Substation fractions have therefore been used to apportion the cost of dual-use substations between demand (functionalized as POD) and supply (functionalized as bulk system) in the *Update*.

As stated in the application, there is no easily-determined basis for the sharing of costs between load and supply services at dual-use sites. The application therefore proposed that the substation fraction approach be used at dual-use sites in the same manner as at sites serving multiple DTS customers, and no party objected to that approach during the course of the proceeding. The AESO submits that applying the substation fraction similarly at both dual-use and multiple-DTS sites should be approved at this time, as provided in Attachment Comm.AESO-001 (j)-B filed on April 26, 2008.

In any event, as noted in the excerpt from the 2007 GTA, application of the substation fraction at dual-use sites may have implications for cost functionalization as well as rate design. If the approach should be further examined, the AESO supports IPCAA's suggestion that such examination be carried out in a future GTA rather than in the context of this refiling, to ensure all aspects of alternative approaches are thoroughly considered.

4. Effective Date of Contribution Policy

AltaLink recommended the AUC “approve the AESO’s implementation of the investment function on an interim basis, effective from the issuance of Decision 2007-106.” TransCanada similarly recommended, “The transition period itself could apply retroactively to December 21, 2007 when Board Decision 2007-106 was rendered and end when the new investment policy becomes effective pursuant to the upcoming Commission decision on the 2007 GTA refiling.”

Both AltaLink and TransCanada suggested the contribution policy be made effective retroactive to the date of Decision 2007-106 to avoid inefficiencies potentially caused by delays and schedule changes as discussed in Information Response DUC.AESO-002. The AESO respectfully submits that delays and schedule changes cannot be avoided retroactively; any delays or schedule changes that have already occurred cannot be reversed. Only future delays and schedule changes can be avoided, which would be achieved by approval of the contribution policy on a go-forward basis. The AESO submits there is no reason to approve the contribution policy retroactively.

TransCanada stated that “the utilities and predecessors to the AESO, at least in some instances, have exercised discretion as to which investment policy applies.” The AESO does not necessarily disagree, but suggests that utilities do not typically offer an investment policy to its customers prior to that investment policy being approved and effective. As noted in Information Response DUC.AESO-002, final approval has not yet been provided for the contribution policy

in the AESO's tariff, and the AESO doubts that any utility would apply a contribution policy prior to its approval.

TransCanada further suggests that "discretion as to which investment policy applies" be used such that a customer would not pay "a substantially higher contribution." The AESO submits that where discretion is used to reduce a customer contribution, the concurrent increase in investment leads to higher rates for all customers. Although the overall impact to rates may be small, the "no harm to the interested parties or to the general public" claimed by AltaLink is therefore not necessarily true. The AESO further submits that the discretion suggested by TransCanada exceeds the "reasonable exercise of discretion" allowed by Article 3.4 of the AESO's tariff, and that any discretion with respect to application of the proposed investment policy should be specifically granted by the Commission with due consideration for all impacts on customers.

Finally, TransCanada further stated, "The Commission could allow signing of the necessary agreements until as late as the date of energization...." The AESO considers such an approach to be inconsistent with provisions which exist in both the current and proposed tariffs, namely, "All Customer Contributions and System Contributions...must be paid by the Customer before the start of construction of transmission facilities..." (Article 9.2). For a contribution to be appropriately determined and paid, an agreement must be signed under the tariff in effect at the time, prior to construction of interconnection facilities — not at the date of energization which typically occurs several months, and sometimes even years, later.

In conclusion, the AESO maintains its view that it is generally appropriate for the effective date of a contribution policy to be coincident with the effective date of the balance of the tariff. The AESO considers that any exception in the current circumstance should be specifically confirmed by the AUC, as requested in the AESO's letter of February 28, 2008. The AESO further submits that any discretion granted to the AESO with respect to its application of the contribution policy should also be clearly laid out by the AUC.

Conclusion

Having addressed all matters raised by parties in their comments on the refiling, and as stated in part 1 above, the AESO submits that its proposed tariff be approved as refiled on February 1, 2008, as amended to incorporate the updated DTS, FTS, PSC, DOS 1 Hour, and DOS Term rate schedule and the updated Article 9.6 provided in Attachment Comm.AESO-001 (j)-B filed on April 26, 2008 and corrected as noted in this submission.

As well, the AESO has assessed the time and resources required to implement the proposed tariff in the AESO's billing system and processes. The AESO estimates it will need three months after the AUC issues its final decision approving the tariff to ensure an accurate and smooth implementation of the proposed tariff. The AESO therefore requests that the final tariff be approved to be effective on the first of the month following 90 days after the date of the decision of the AUC on this refiling, assuming no further refiling is required.

If you have any questions on these reply comments, please contact me at (403) 539-2465 or by e-mail to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO