



January 8, 2009

Submitted via AUC Digital Data Submission (DDS) System

Alberta Utilities Commission
Utilities Division, Calgary Office
Fifth Avenue Place East
400, 425 – 1st Street SW
Calgary, Alberta
T2P 3L8

Attention: Cameron Taylor

Dear Cameron:

**Re: AESO Evidence in Review and Variance of Decision 2007-106
Application No. 1566390 and Proceeding ID. 108**

On December 2, 2008, the Alberta Utilities Commission (“AUC”) issued a process schedule (subsequently revised on December 22, 2008, and January 7, 2009) for the review and variance (“R&V”) of Decision 2007-106 regarding the AESO’s 2007 General Tariff Application (“GTA”). This letter provides the AESO’s evidence as permitted by that process.

1. Relevant Evidence Previously Filed in the AESO’s 2007 GTA

The AUC’s process schedule included the following direction:

However, in order that sufficient evidence is on the record to enable the Commission to make a determination on the Review Question, the Commission directs both the Applicants and the AESO to assemble and re-file any evidence previously filed in the Alberta Electric System Operator 2007 General Tariff Application (Application No. 1485517) proceeding that is relevant to the Review Question.

The AESO has provided with this letter all evidence it had previously filed with respect to the 12% prepaid O&M charge that is the subject of the Review Question. This previously-filed evidence is comprised of:

- (a) Section 6.5.2 (pages 13-15 of section 6, Exhibit 007) of the AESO’s Application dated November 3, 2006;

- (b) Responses to Information Requests (“IRs”) BR.AESO-012 (including Attachment BR.AESO-012 which is IR Response ALPAC.AESO-003 from the AESO’s 2005-2006 GTA) and BR.AESO-013 dated January 24, 2007 (Exhibits 080 and 089);
- (c) Section 4.3 (pages 86-87) of the AESO’s Written Argument dated June 21, 2007; and
- (d) Comments in section 1.1 (page 2, line 37, through page 3, line 2) of the AESO’s Written Reply Argument dated July 13, 2007.

The AESO believes that TransCanada Energy was the only other party who commented on the 12% prepaid O&M charge during the AESO 2007 GTA proceeding. The AESO understands that the Applicants will be submitting TransCanada Energy’s previously-filed comments with their evidence in this R&V proceeding.

The AESO considers that its own previously-filed evidence provides a comprehensive summary of its views with respect to the prepaid O&M charge.

2. Effects of the 12% Prepaid O&M Charge

The AESO notes that the AUC has determined the Review Question to be, “Did the Board err in failing to adequately consider the effects of the 12% prepaid O&M charge within the context of the AESO’s contribution policy?” In the context of the Review Question, the AESO considers the effects of the 12% prepaid O&M charge to be as follows, consistent with its previously-filed evidence:

1. O&M costs associated with standard service obtained through Standard Facilities would be recovered both through the DTS rate paid by all DTS customers and through contributions paid by some DTS customers.
2. DTS customers who paid contributions prior to January 1, 2006 (that is, prior to the addition of the O&M charge) would pay only the O&M costs recovered through the DTS rate. DTS customers who paid contributions in 2006 and later years (that is, after the addition of the O&M charge) would pay both the O&M costs recovered through the DTS rate and the O&M costs recovered through contributions. The DTS rate is the same for both groups of customers, resulting in intergenerational inequity between those groups.
3. If the AESO’s maximum investment level is regularly adjusted such that a consistent proportion of DTS customers is not subject to contributions, the maximum investment level will generally increase to offset project cost increases due to the application of an O&M charge. Such increases will diminish any economic signals sent through the inclusion of the O&M charge in the AESO’s contribution policy.
4. The AESO’s contribution policy will include an O&M charge on all costs, while the contribution policies of distribution facility owners (“DFOs”) will not include an O&M charge or will include an O&M charge only on “optional facilities” for load customers. These differences will reduce the harmonization between the AESO’s and DFOs’ contribution policies.

5. TFOs would need to modify their accounting processes to properly record the O&M charge as a prepaid expense rather than as a contribution in aid of construction.
6. The AESO would need to develop consistent practices to address:
 - application of the O&M charge to contract terms shorter than 20 years;
 - changes to the O&M charge resulting from increases, decreases, and staging of contract capacity; and
 - impacts on the O&M charge of sharing of facilities or of reclassification of facilities between system and customer.

3 Costs to Which the O&M Charge Could Apply

The AESO also notes the matter raised by TransAlta in its April 10, 2008, comments on the R&V application, and replied to by the Applicants, on distinguishing between categories of interconnection costs to which the O&M charge could apply. TransAlta identified three categories of costs (summarized on page 7 of AUC Decision 2008-090):

- (i) the cost of facilities in excess of Standard Facilities, recovered through customer contribution;
- (ii) for Standard Facilities, those costs above the AESO's maximum investment and recovered through customer contribution; and
- (iii) for Standard Facilities, those costs up to the AESO's maximum investment and recovered through the DTS rate.

Consistent with the approach proposed in its 2007 GTA, the AESO submits that it is appropriate to assess an O&M charge on the cost of excess facilities (category (i) above), but inappropriate to assess such a charge on the cost of Standard Facilities whether above (category (ii)) or below (category (iii)) the AESO's maximum investment.

The AESO's tariff defines "AESO Standard Facilities" as "the least-cost interconnection facilities which meet good transmission practice including applicable reliability, protection, and operating criteria and standards..." (AESO Terms and Conditions, Article 1.1). Facilities less than this would generally not be able to supply the customer's load while meeting applicable standards. The cost of Standard Facilities is eligible for investment, up to the AESO's maximum investment based on the service's contract capacity (the category (iii) costs described by TransAlta). The cost of Standard Facilities which is eligible for investment but is above the AESO's maximum investment is recovered through customer contribution (category (ii) costs). The customer generally has no ability to reduce the cost of an interconnection below that of Standard Facilities.

Alternatively, facilities in excess of standard are not considered by the AESO to be necessary to supply the customer's load (although an individual customer may consider those facilities to be necessary for flexibility, reliability, or other reasons). Excess facilities are not eligible for investment, and are recovered from the customer as a customer contribution (category (i) costs). A customer generally has the choice of paying a contribution for excess facilities, or of accepting service through Standard Facilities and avoiding the excess facilities contribution.

The AESO understands that O&M costs associated with Standard Facilities have traditionally been recovered as an operating expense through rates, both within Alberta and in other jurisdictions, and by both distribution and transmission entities. Recovering such costs through rates is consistent with customers paying for system access service rather than specific facilities. Attempting to differentiate between O&M costs associated with Standard Facilities below and above maximum investment creates fairness issues as DTS charges are based on actual and historical demand for the service, and such demands may be significantly above the contract capacity which determines maximum investment. In general, all of the effects of the 12% prepaid O&M charge discussed in section 2 of this evidence apply when the O&M charge is assessed against those costs of Standard Facilities above the AESO's maximum investment.

On the other hand, facilities in excess of standard are not considered necessary to supply the customer's load and provide system access service. The excess facilities are being provided only at the request of a specific customer, and it is inappropriate to include O&M costs associated with those facilities in the DTS rate charged to all other customers. The AESO considers that the customer can choose to be served through "Standard Facilities" and accordingly avoid the associated O&M charge.

The AESO also understands that no DFO in Alberta currently adds an O&M charge to the cost of facilities necessary to provide service to a load customer, whether the cost of those facilities is below or above the DFO's maximum investment. As well, one DFO, FortisAlberta, adds a prepaid O&M charge only to facilities beyond those required for the provision of standard service. The AESO therefore submits that assessing an O&M charge only on facilities in excess of standard increases consistency with DFO contribution policies.

Finally, limiting the O&M charge to facilities in excess of standard may reduce its impact to a level where TFO accounting processes and AESO practices may not need to be modified.

For the above reasons, the AESO submits that the O&M charge should not apply to the cost of Standard Facilities (whether below or above AESO maximum investment), and should only apply to the cost of facilities in excess of standard.

If you have any questions on this evidence or need any additional information, please contact me at 403-539-2465 in Calgary or by e-mail to john.martin@aeso.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

Attachments

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