



March 2, 2009

Submitted via AUC Digital Data Submission (DDS) System

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

Attention: Wayne MacKenzie, Application Officer

Dear Wayne:

Re: AESO Reply Argument on Extension of AESO Interim Refundable Fort Nelson Rider H (Application 1600831, Proceeding ID 150)

The Alberta Electric System Operator (“AESO”) provides the following reply argument on the above-noted application, in accordance with the schedule set out in the February 13, 2009 letter of the Alberta Utilities Commission (“AUC”).

In preparing this reply argument the AESO has considered the written arguments of BC Hydro, Harvest Operations Corp. (“Harvest”), and the Office of the Utilities Consumer Advocate (“UCA”), all filed on February 23, 2009, as well as submissions in the Husky Complaint proceeding (Application 1554646) as referenced by Harvest in its argument. The AESO considers that most of the comments provided in argument have already been satisfactorily addressed in the AESO’s application and information responses, and therefore that information is not repeated here. Accordingly, lack of response in this reply argument to any particular matter raised in argument does not indicate the AESO’s agreement on such a matter.

The AESO does, however, offer the following reply to several incorrect or misleading comments made in the arguments of Harvest and UCA. BC Hydro was supportive of the AESO’s application, and the AESO therefore provides no reply to the argument of BC Hydro.

The following paragraphs refer to portions of the Harvest and UCA arguments, immediately followed by the AESO’s reply submissions.

1 Reply to Harvest Comments

- 1.1 “Harvest’s participation in this proceeding was predicated on concerns Harvest has with the service being received from the AESO and BC Hydro.” (page 1) — To be clear,

Harvest's site in BC does not receive service from, and is not a customer of, the AESO. Harvest's site in BC receives service from, and is a customer of, BC Hydro.

- 1.2 “The AESO delayed the connection of Harvest’s load in late 2007 and early 2008 by 4 to 6 months....” Harvest states that delays were “caused by the AESO regarding cost responsibility for estimated Rider H costs....” (pages 1-2) — As evidenced by submissions in the different proceedings related to Rider H, careful assessments of operational and reliability concerns are required to ensure service to existing loads is not unduly affected by transmission load additions in the Rainbow Area. In particular, Information Response HARVEST.AESO-002 (d) in the Husky Complaint proceeding noted questions relating to coordination of protection equipment in the area which remained to be resolved at that time, and Information Response HARVEST.AESO-002 (e) in the current proceeding noted that an automatic Under Voltage Load Shedding (“UVLS”) scheme has been designed and fully implemented on the Alberta side of the transmission system in the area and is being implemented on the BC side. As well, the AESO notes that expedited processes were used to revise Operating Policies and Procedures (OPPs) accommodating Harvest’s connection in both March 2008 and January 2009. In any event, the operational and reliability concerns would exist in the Rainbow Area regardless of whether or not costs related to additional TMR generation are incurred and regardless of how those costs are recovered. In other words, although addressing the operational and reliability concerns is important in the provision of transmission service, it is not relevant to the cost recovery considerations addressed in the AESO’s Interim Rider H Extension application.
- 1.3 “[T]he AESO notes that Rider H is not forecast to be required over the next two years due to load reductions in the forestry industry....” (page 2) — Interim Rider H, as approved, relates only to the cost of a fourth TMR generator in the Rainbow Area. As Harvest notes, the AESO now forecasts only **three** generators will be required for TMR dispatch to the end of 2010. Those three generators are required to be in-service at all times, as explained in Information Response HARVEST.AESO-002 (e). However, the curtailments discussed at length in Harvest’s argument primarily occurred when only **two** generators were available for TMR dispatch, as detailed in part (d) of the same information response. The requirement for Rider H is effectively unrelated to the need for load curtailment to address operational and reliability concerns in the Rainbow Area.
- 1.4 “[T]he AESO curtailed, and in Harvest’s submission curtailed needlessly, Harvest’s load some 20 times from April 2008 to January 2009.” (page 3) — As noted in item 1.3 above, Harvest’s load was curtailed when only two generators were available for TMR dispatch in the Rainbow Area. As explained in Information Response HARVEST.AESO-002 (e), such load curtailment was required “to support local voltage and in preparation for the next contingency event.” If the load was not curtailed and an additional contingency event occurred without the required UVLS schemes in place on the BC side of the transmission system in the area, widespread outages could have resulted. Therefore, contrary to the assertions of Harvest, it is quite clear that the Harvest load curtailments were necessary to ensure operational and reliability concerns were addressed equitably in both BC and Alberta.
- 1.5 “Even once the forestry related load reductions in the Rainbow Lake area were known to the AESO, the AESO choose to continue to curtail Harvest. (page 3) — The AESO notes that BC Hydro has not reduced its contract capacity for service from Alberta. As explained in Information Response UCA.AESO-009, BC Hydro currently contracts for

38.5 MW at Fort Nelson and has applied for an additional 5 MW of contract capacity, despite the forestry related load reductions in Fort Nelson. As well, as discussed in Information Response HARVEST.AESO-003 (d) in the Husky Complaint proceeding, the relative location of load reductions and additions may result in different impacts on area reliability. It is therefore insufficient to simply compare the magnitude of a reduction in Fort Nelson with the magnitude of a reduction at Harvest's site.

- 1.6 “[I]n October 2008 BC Hydro requested a load increase of 4 MW on behalf of Harvest.” (page 4) — The AESO notes that in its argument in the Husky Complaint proceeding, Harvest suggested (page 3) that the AESO “treat all incremental Rainbow Lake load in a similar manner to the treatment of the Harvest load, as outlined in OPP 501.” The AESO submits that its response to BC Hydro’s request for a contract capacity increase was consistent with Harvest’s earlier suggestion.
- 1.7 “From Harvest’s perceptive [*sic*], the AESO and BC Hydro do not work together cooperatively for the benefit of their customers.” (page 4) — The AESO notes BC Hydro’s submission in its argument (page 1) that “BC Hydro has been working co-operatively with the AESO to find and implement a mutually acceptable solution to providing service in the Fort Nelson area.”

2 Reply to UCA Comments

- 2.1 “[T]he current Rider H structure goes against the intent of the current regulations regarding import/export lines in Alberta.” (page 1) — With respect, the AESO submits that UCA has misinterpreted the referenced subsections of the *Transmission Regulation*. Subsection 27(1) clearly states that section 27 applies only to “an intertie **proposed** to be constructed” or “an **upgrade or enhancement** to an intertie that proposes, or would result in, an **increase to the path rating** of the intertie” (bolding added). First, 7L81 line to Fort Nelson is not an intertie “that links one or more electric systems outside Alberta to the interconnected electric system”, since Fort Nelson is not connected to any other electric system and is part of the Alberta control area. Second, since 7L81 line is not an intertie, it does not have an intertie path rating. Finally, 7L81 line is not a proposed line since it has existed since 1991, and no upgrades or enhancements are contemplated that would increase the capacity rating of 7L81 line. Interim Rider H therefore does not conflict with provisions for intertie projects in the *Transmission Regulation*.
- 2.2 “BC Hydro has applied for a total of 37 MW of additional load....” (page 2) — As explained in Information Response UCA.AESO-009 (c), 32 MW of the applied-for increase is contingent on the transmission system in the area being able to accommodate the additional load. This will likely be after the completion of the Northwest Alberta Transmission Development already approved by the AUC and expected to be completed in late 2011 — well after the AESO expects Interim Rider H to be addressed as part of its 2010 General Tariff Application (“GTA”).
- 2.3 “The UCA is concerned that the current structure of Rider H is sending the wrong price signal to BC Hydro.” (page 2) — As explained in Information Response UCA.AESO-008 (d), Decision 2005-096 on the AESO’s 2005-2006 GTA required the AESO to provide service under Fort Nelson Demand Transmission Service Rate FTS by charging not more than the “postage stamp rate” for voltage control (TMR) charges, with no limitations or restrictions on the capacity of the service. However, the AESO agrees that given the differential Rainbow Area load increases in Alberta and BC, it is reasonable to

thoroughly re-assess the rate charged to BC Hydro at Fort Nelson to ensure that it sends the correct price signal and can appropriately accommodate changes to the Fort Nelson service. As the AESO stated in its Interim Rider H Extension application (page 2), “reviewing the final rate for service to Fort Nelson as part of a general tariff application will allow a more thorough and complete review of the matter in the context of the balance of the AESO’s tariff, and will allow all affected parties an opportunity to participate without adding a separate regulatory process.”

- 2.4 “The UCA is also concerned that intergenerational issues will arise should the Commission choose to continue with the 50/50 sharing mechanism.” (page 4) — The AESO understands UCA to be referring to the impact of any intergenerational issues that may arise from timing differences between reviewing Rider H immediately rather than as part of the AESO’s 2010 GTA. The AESO submits that the magnitude of such impact, if any, would be very small based on the overall costs and difference in timing being considered as well as in the context of timing differences arising through the AESO’s deferral accounts. In any event, the AESO notes that the AUC may address the impact, if any, of such intergenerational equity issues in a determination on Rider H as part of the AESO’s GTA.
- 2.5 “BC Hydro has received windfall benefits through the AESO’s quick hits rule change.” (page 5) — UCA’s comment appears to be based on a misunderstanding and inappropriate analysis of the Quick Hits rule changes in December 2007. As explained in Information Response UCA.AESO-010 (b), “Under the current ISO Rules, Dispatch Down Service (DDS) is in place to correct the artificial price depressing impact of TMR dispatch.” Furthermore, the DDS rules were implemented after extensive consultation with industry and through an established review and approval process. The reconstituted pool price received by all generators under the current ISO Rules is the correct pool price. The AESO submits that comparisons to an out-dated and artificially-depressed pool price determination are incorrect, inappropriate, and irrelevant.

The AESO considers that the foregoing reply submissions respond to comments made in the arguments of Harvest and UCA which had not already been satisfactorily addressed in the AESO’s application and information responses. The AESO accordingly submits that neither Harvest nor UCA have provided sufficient reasons for the AUC not to approve the extension of the current Interim Rider H, as requested by the AESO.

In conclusion, the AESO notes the recommendation of UCA in the conclusion of its argument (page 5):

The UCA recommends the Commission direct the AESO to thoroughly assess the costs of providing these services to BC Hydro and create a Rider H tariff structure such that Alberta ratepayers are not inappropriately subsidizing these incremental costs.

The AESO agrees that such a thorough assessment is appropriate, and currently intends to conduct it as part of its upcoming 2010 GTA, planned to be filed in the third quarter of this year. The AESO further considers that conducting such an assessment as a stand-alone application and proceeding would be inappropriate and inefficient, for the reasons provided in its Interim Rider H extension application. The AESO therefore submits that no direction from the AUC is required on this matter.

If you have any questions concerning the AESO's reply argument, please contact me at 403-539-2465 in Calgary 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