



April 14, 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: Cameron Taylor, Application Officer

Dear Cameron:

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

- 1 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 January 7, 2009 letter of the Alberta Utilities Commission (“AUC”). In preparing this reply argument the AESO has considered the arguments filed by:
  - the Applicants,
  - AltaLink Management Ltd. (“AltaLink”),
  - the Industrial Power Consumers Association of Alberta (“IPCAA”),
  - Inter Pipeline Fund (“IPF”),
  - the Public Institutional Consumers Association (“PICA”),
  - StatoilHydro, and
  - TransCanada Energy and TransCanada Keystone Pipeline GP (“TransCanada”).
- 2 The AESO considers that the majority of matters raised in the arguments of other parties have already been satisfactorily addressed in the AESO’s evidence, information responses, and argument, and that information need not be repeated here. Accordingly, lack of response in this reply argument to any particular matter raised in the argument of another party does not necessarily indicate the AESO’s agreement on such matter.
- 3 Among those who filed argument, there is a clear consensus in favour of:
  - not charging 12% O&M on standard facilities below the AESO’s maximum investment level, and
  - charging 12% O&M on facilities in excess of standard (also called “optional facilities”).

- 4 Among those who filed argument, a majority have also agreed that it is appropriate to not charge 12% O&M on any standard facilities, including standard facilities above the AESO's maximum investment level. However, two parties — IPCAA and PICA — disagreed, and supported charging 12% O&M on standard facilities above the maximum investment level.
- 5 IPCAA submitted that “as the level of capital costs that can be rolled into the tariff is limited so too should the associated O&M costs.” The AESO submits that maximum investment levels have traditionally limited the capital costs rolled into utility rates in Alberta, but no such limits have applied to O&M costs. There is therefore no obvious requirement that capital and O&M costs must be similarly limited.
- 6 PICA submitted:
- “If the standard facility costs exceed the maximum investment level due to length of line; the customer may not get the appropriate price signal if the standard facilities costs exceeding the maximum investment were exempted from the O&M charge.
- While it could be argued the O&M on standard facility substation costs exceeding the maximum investment level could conceivably be covered by the DTS rates, which reflect the load; the structure of the AESO's investment policy does not distinguish between load related substation costs and distance related transmission line costs.”
- 7 The AESO agrees that O&M on the substation portion of standard facilities are appropriately covered by DTS charges which reflect load. The AESO further suggests there is equally no reason to charge 12% O&M on the line portion of standard facilities. The AESO's contribution policy does not preferentially apply investment to either the substation portion or the line portion, so treating such costs separately is not practical. Furthermore, standard facilities are already defined as the least-cost facilities which can supply a customer's load. It is generally not possible for a customer to respond to a price signal with respect to standard facilities short of abandoning the project.
- 8 The AESO concludes that, on balance, the arguments of IPCAA and PICA are not compelling and are outweighed by the various concerns raised by the AESO and others, namely, intergenerational equity, increased complexity of the tariff, reduction in harmony of AESO and distribution facility owner tariffs, and requirements for modifications to transmission facility owner processes and AESO practices. The AESO submits that the IPCAA and PICA proposal should be rejected in favour of the position supported by the majority of participants, that being to not charge 12% O&M on any standard facilities, including standard facilities above the AESO's maximum investment level.
- 9 Finally, although not dissenting from the majority position discussed above, TransCanada submitted in its argument (pages 5-6), “In the alternative, should the Commission believe there is insufficient information on the record to make a determination, TransCanada recommends that this matter be addressed in the AESO's 2010 GTA and that this portion of the AESO's Tariff be left as an interim, refundable part of their Tariff, pending a final Commission decision.”
- 10 As it stated in its argument (page 7), “The AESO considers that the comments provided in its evidence, as well as the discussion in item 1.2 of [its] argument, sufficiently examine the matter raised by TransAlta and demonstrate that all costs of standard facilities, whether above or below

the AESO's maximum investment, should not be subject to an O&M charge." The AESO doubts that further substantive and relevant information would be forthcoming on this matter as part of a general tariff proceeding. The AESO urges the AUC to finalize the application of the 12% O&M charge in this review proceeding, and not to create additional uncertainty and inefficiency by deferring resolution of this matter to the AESO's 2010 GTA.

11 If you need any additional information related to this reply argument, please contact me at 403-539-2465 in Calgary or by email to [john.martin@aeso.ca](mailto:john.martin@aeso.ca).

Yours truly,

*[original signed by]*

John Martin  
Director, Tariff Applications

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