



Alberta Electric System Operator

Extension of AESO Interim Refundable Fort Nelson Rider H

April 1, 2009



ALBERTA UTILITIES COMMISSION

Decision 2009-040: Alberta Electric System Operator
Extension of AESO Interim Refundable Fort Nelson Rider H
Application No. 1600831
Proceeding ID. 150

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Contents

1	INTRODUCTION	1
2	BACKGROUND	1
3	DISCUSSION OF ISSUES	2
	3.1 Views of the Parties	2
	3.2 Commission Findings	4
4	ORDER	5
	APPENDIX 1 – RATE SCHEDULE	7
	APPENDIX 2 – PROCEEDING PARTICIPANTS	8

1 INTRODUCTION

1. On December 30, 2008, the Alberta Electric System Operator (AESO) filed an application (Application) with the Alberta Utilities Commission (AUC or Commission). The Application requested the approval of an extension for the AESO Interim Refundable Fort Nelson Rider H (AESO Interim Rider H, or Rider H).

2 BACKGROUND

2. On January 2, 2008, the Alberta Energy and Utilities Board issued Order [U2008-2¹](#) approving AESO's Interim Refundable Fort Nelson Rider H (Application 1552173) effective from January 1, 2008 to December 31, 2008. The AESO Interim Rider H is an incremental refundable charge in addition to amounts payable for demand and energy under Rate FTS. The purpose of the AESO Interim Rider H was to allow AESO to recover from British Columbia Hydro and Power Authority (BC Hydro), 50 percent of the cost of the additional transmission must-run (TMR) dispatch of a fourth generator in the Rainbow Area if it was needed to support incremental load near Fort Nelson in British Columbia.

3. On January 10, 2008, Husky Oil Limited (Husky) filed a complaint (Husky Complaint) against the Rider on the grounds that providing the additional service to BC Hydro would cause a material decrease in the reliability of service to customers in the Northwest part of Alberta (Application 1554646).

4. The Husky Complaint was heard by way of written proceeding. In Decision [2008-052²](#) the Commission found that Husky had effectively withdrawn its complaint, and given that no other party objected to the Rider, the Commission confirmed Rider H and dismissed the Husky Complaint.

5. In the Application, the AESO requested that the AUC approve the extension of the AESO Interim Rider H until it is replaced by a rate to be included in the AESO's next general tariff application (GTA). AESO stated that it expected to file its next GTA in the third quarter of 2009, and anticipated that the resulting rates would become effective about a year later, in the third quarter of 2010.

¹ EUB Order U2008-2 – *Alberta Electric System Operator Fort Nelson Rider H Application* (Application 1552173) (Released: January 2, 2008)

² Decision 2008-052 – *Alberta Electric System Operator and Husky Oil Limited – Husky Oil Complaint Against AESO Fort Nelson Rider H* (Application 1554646) (Released: June 24, 2008)

6. The approved AESO Interim Rider H (Order U2008-2) was to expire, unless revoked or replaced by another approved rate or rider, on or before December 31, 2008. In the Application, the AESO stated that it was continuing to work with BC Hydro to develop reasonable alternatives to serve BC Hydro load in Fort Nelson, but it would need to more fully develop its long term transmission plan for the area before filing a final rate application.

7. The process steps and timelines established by the Commission for the AESO's Application were:

	<u>Date</u>
Notice of Application	January 6, 2009
Statement of Intent to Participate (SIP)	January 13, 2009, 4:00 pm
Information Requests to AESO	January 30, 2009, 12:00 pm
Information Responses from AESO	February 9, 2009, 12:00 pm
Argument (Intervening Parties)	February 23, 2009, 4:00 pm
Reply Argument by AESO	March 2, 2009, 4:00 pm

8. Three parties submitted a SIP with respect to the Application. The Office of the Utilities Consumer Advocate (UCA) stated that it was not supportive of the Application. Harvest Operations Corp. (Harvest) submitted that it did not oppose the Application to extend Rider H for another two years or so, and BC Hydro submitted that it supported the Application.

3 DISCUSSION OF ISSUES

3.1 Views of the Parties

9. In support of the Application, the AESO stated that there was no TMR generation attributable to the AESO Interim Rider H from January 2008 through January 2009. It also forecast that Rider H would not be used during 2009, nor would it be used through to the end of 2010, due to reductions in load as a result of closures and curtailments in the forest industry in British Columbia. However, it noted that in its sensitivity analysis, Rider H had the potential to be used for about 83 hours over the two-year period, at a cost of \$100,000 to be shared 50/50 between BC Hydro and other AESO customers.

10. The AESO stated that it intends to conduct a thorough assessment of Rider H as part of its upcoming 2010 GTA, which it plans to have filed with the AUC by the third quarter of 2009. The AESO argued that conducting such an assessment as a stand-alone application and proceeding would be inappropriate and inefficient. It submitted that reviewing the final rate for service to Fort Nelson as part of a GTA would allow a more thorough and complete review of the matter in the context of the balance of the AESO's tariff and would allow all affected parties an opportunity to participate without adding a separate regulatory process.

11. The AESO indicated that Rider H would not have undue impacts on other AESO customers. If there were impacts, it argued the magnitude would be very small based on the overall costs and timing being considered. It stated that once the final rate for service to BC Hydro is approved as part of its GTA, either the AESO or BC Hydro will pay to the other party the difference between costs recovered under the interim rider and costs that would have

been charged under the final rate. The final costs, if any, would then be included in the AESO's next deferral account reconciliation application and financially settled with AESO customers at that time.

12. The AESO stated that Harvest is a customer of BC Hydro and, as such, does not receive service from the AESO. The AESO submitted that load curtailments for Harvest were necessary to ensure that operational and reliability concerns were addressed equitably in both British Columbia and Alberta. The AESO noted that expedited processes were used to revise Operating Policies and Procedures to accommodate Harvest's connection in both March 2008 and January 2009. Furthermore, it argued that, while 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.

13. The UCA expressed concern that intergenerational issues would arise should the Commission choose to continue with the 50/50 sharing mechanism specified by Rider H and recommended that BC Hydro at Fort Nelson should be charged 100% of the incremental transmission related costs for its load. It submitted that Rider H should not be extended in its current form, rather BC Hydro should be charged:

- the full incremental costs above 24.5 MW; and
- 100% of incremental costs for reserves and energy.

14. UCA recommended that 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.

15. UCA submitted that the current Rider H structure goes against the intent of the current intertie regulations regarding import/export lines in Alberta. In response, the AESO pointed out that the 7L81 line is not a proposed line, it has existed since 1991, and no upgrades or enhancements are contemplated that would increase the capacity rating of 7L81 line. Therefore, the AESO submitted Rider H does not conflict with provisions for intertie projects in the *Transmission Regulation*. It argued that UCA has misinterpreted the referenced subsections of the *Transmission Regulation*.

16. UCA submitted that BC Hydro has received windfall benefits through the AESO's Quick Hits rule change. It stated that BC Hydro should not be entitled to receive these windfall benefits, while at the same time not pay for 100% of the transmission cost for serving its load. In response, the AESO suggested that UCA's comment appeared to be based on a misunderstanding and inappropriate analysis of the Quick Hits rule changes in December 2007. The AESO stated that under the current Independent System Operator Rules (ISO Rules), Dispatch Down Service is in place to correct the artificial price depressing impact of TMR dispatch. The AESO argued that comparisons to an out-dated and artificially-depressed pool price determination are incorrect, inappropriate, and irrelevant.

17. Harvest submitted that after it was connected in March 2008, its load had been curtailed twenty times, for a total of about 150 hours. These curtailments, Harvest argued, has cost it about \$1.5 million in lost production. It was Harvest's view that the concerns it has, and the financial losses it has experienced, are a direct result of the poor working relationship between the AESO and BC Hydro. Harvest submitted that it elected to make its concerns known to the AUC as part

of this proceeding instead of filing a separate complaint application. It requested a direction from the AUC to the AESO that the treatment Harvest has received should not be acceptable.

18. Harvest submitted that, depending on which way the Commission ruled, it could be directly impacted by the cost responsibility for the incremental TMR costs; however, Harvest indicated it did not oppose the application. Harvest noted the AESO's evidence that no incremental TMR costs are expected in 2009 and 2010, and that Rider H may never be utilized. Harvest stated that it also believed that once the approved transmission upgrades (Northwest Alberta Transmission Development, EUB Order U2006-205) to the Rainbow Lake area are in place in 2011 the need for TMR in the Rainbow Lake area will be significantly diminished.

19. BC Hydro submitted that the AESO had made it clear that there are no unreasonable cost impacts attributable to Rider H and that the service levels to other customers will remain at or better than the service levels before Rider H was implemented. BC Hydro stated that it was in the public interest to approve the extension of Rider H.

3.2 Commission Findings

20. The Commission acknowledges the AESO's evidence that there has been no TMR generation attributable to the AESO Interim Rider H from January 2008 through January 2009. Furthermore, the AESO's forecast indicates that Rider H will not likely be used through to the end of 2010 due to reductions in load as a result of closures and curtailments in the forest industry in British Columbia.

21. The Commission notes that the AESO Interim Rider H was previously approved under Order U2008-2 and subsequently confirmed by Decision 2008-052.

22. The final rate for service to BC Hydro at Fort Nelson will be considered as part of AESO's GTA expected to be filed by the AESO in the third quarter of 2009. The Commission agrees with the AESO's position that conducting a separate, stand-alone regulatory process to further consider the AESO Interim Rider H would be inefficient.

23. The previous Order U2008-2 found that, with respect to financial impacts of the rate, the proposed 50/50 sharing of costs between BC Hydro and other AESO customers was reasonable on an interim basis. The Commission disagrees with the recommendation by UCA to change the terms of Rider H prior to it being dealt with through the AESO's GTA.

24. Parties including BC Hydro and Harvest either support or do not oppose the approach requested by the AESO.

25. Harvest is not serviced by, or a customer of the AESO and the Commission believes that the concerns Harvest has with respect to the operation and reliability of transmission service are not specific to the current Application to extend the AESO Interim Refundable Rider H. The Commission considers that any concerns of Harvest in regards to the operation and reliability of transmission service are primarily matters that should be addressed through ISO Rules. In the event that Harvest considers that its concerns have rate implications, Harvest will have an opportunity to further address such concerns as part of the AESO GTA.

26. The UCA is not supportive of the Application and, in addition to its recommendations (discussed above), it raised concerns about intertie regulations, intergenerational equity issues,

and windfall profits to BC Hydro as a result of the Quick Hits rule change. The Commission notes that the UCA will have an opportunity to further address the concerns it has raised as part of the AESO GTA.

27. If a true-up is required after a final rate is determined, the AESO would either collect or refund money depending on the difference between the interim rate and the final approved rate.

28. For these reasons, the Commission considers that it is reasonable to extend the AESO Interim Rider H until such time as it is replaced by a rate approved by the Commission in the AESO's next GTA. If the AESO does not file a GTA in the second half of 2009, the Commission may consider whether a separate proceeding on this matter is warranted.

4 ORDER

29. IT IS HERBY ORDERED THAT:

- (1) The AESO Interim Refundable Fort Nelson Rider H is approved for extension as filed, to be in effect from April 1, 2009 until such time as it is replaced by a rate approved by the Commission in the AESO's next GTA, as set out in the rate schedule attached as Appendix 1.

Dated in Calgary, Alberta on April 1, 2009.

ALBERTA UTILITIES COMMISSION

(original signed by)

Carolyn Dahl Rees
Vice-Chair

APPENDIX 1 – RATE SCHEDULE**Alberta Electric System Operator (AESO)****Extension of AESO Interim Fort Nelson Rider H**

Rider H	Interim Refundable Fort Nelson Rider	Page 1 of 1
Purpose:	The Interim Refundable Fort Nelson Rider H is to recover 50% of the cost of the additional transmission must-run (TMR) dispatch of a fourth generator in the Rainbow Area in support of incremental load near Fort Nelson.	
Applicable to:	BC Hydro for demand service to Fort Nelson in British Columbia.	
Effective:	The rider will be effective from April 1, 2009 until such time as it is replaced by a rate approved by the Commission in the AESO's next GTA.	
Rate:	At the end of each billing period, the AESO will determine the incremental cost of the additional transmission must-run (TMR) dispatch of a fourth generator in the Rainbow Area, beyond the dispatch that would have been required prior to the addition of an incremental 10 MW of load near Fort Nelson in January 2008. Under this rider, 50% of the incremental cost so determined will be billed to BC Hydro.	
Terms:	(a) Rider H is an incremental refundable charge in addition to amounts payable for demand and energy under Rate FTS. (b) The Terms and Conditions form part of this Rate Schedule.	

END OF DOCUMENT

APPENDIX 2 – PROCEEDING PARTICIPANTS

Name of Organization (Abbreviation) Counsel or Representative (APPLICANTS)
Alberta Electric System Operator (AESO) J. Martin
British Columbia Hydro and Power Authority (BC Hydro) L. Manning J. Sofield
Harvest Operations Corp. (Harvest) R. Suffron, P.Eng. D. Hildebrand, P.Eng.
Office of the Utilities Consumer Advocate (UCA) C. R. McCreary R. Henderson E. de Palezieux

Alberta Utilities Commission
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Commission Staff V. Slawinski (Commission Counsel) W. MacKenzie J. Halls D. Ploof