



July 10, 2009

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

Attention: Dwayne Ward, Application Officer

Dear Dwayne:

Re: **AESO Argument on AESO 2009 Rates Update Application
Application No. 1604888 and Proceeding ID 177**

1 The Alberta Electric System Operator (“AESO”) filed its 2009 Rates Update Application (“Application”) with the Alberta Utilities Commission (“AUC”) on March 12, 2009. As summarized in section 1.4 (pages 6-7) of the Application, the AESO requests approval of the updated dollar amounts as calculated for the AESO’s 2009 rates and of the rate and rider schedules which reflect those amounts. The process established for the review of the Application did not provide for the submission of intervener evidence, but included an opportunity for information requests (“IRs”). IRs were submitted only by the AUC, to which the AESO filed responses on June 26, 2009.

2 The AESO provides the following written argument on matters addressed in its Application and raised in information requests from the AUC and in statements of intent to participate (“SIPs”) from other parties. Lack of comment on any specific matter does not necessarily indicate lack of materiality or significance of that matter. The AESO reserves the right to respond in reply argument to matters raised by other parties which are not addressed in this argument.

1 Introduction

3 As explained in section 1.2 (page 4) of the Application, there is no requirement that the AESO update rates between more comprehensive general tariff applications (“GTAs”) as deferral accounts provide certainty that the AESO can fully recover its costs. Furthermore, the Application, if approved, will have no effect on the aggregate amount of revenue received by the AESO through base rates, deferral account riders, and deferral account reconciliations. However, the purpose of the Application, and the effect if approved, is to enable the recovery of a greater portion of the AESO’s revenue requirement through the more precise and timelier

mechanism of base rates and a corresponding reduction to the portion recovered through Deferral Account Adjustment Rider C.

- 4 In its SIP, FortisAlberta expressed a concern that approval of the rates update would lead to an increase in the credit support required under Article 15.1 of the AESO's terms and conditions of service. In correspondence to FortisAlberta, the AESO explained, "As credit support requirements reflect both rate changes and Rider C charges, the AESO does not anticipate any material impact on the credit support required from FortisAlberta..." FortisAlberta subsequently acknowledged in a letter to the AUC on April 23, 2009, that the AESO had responded to their concern and they did not oppose approval of the Application.
- 5 In Information Request AUC.AESO-001 (a), the AUC asked why the AESO filed its rates update application in March while planning to file a GTA in the third quarter of 2009. In response, the AESO explained that the rates update is intended to be a straightforward and uncontroversial application. Based on this expectation, the AESO had requested in its Application (page 7) that it be reviewed through an expedited written process and be approved to be effective July 1, 2009 on either a final or interim basis. In comparison, the GTA would be comprehensive, include matters potentially subject to debate, and require a longer review process and longer time for implementation.
- 6 The same considerations are relevant to the concern, expressed by the Industrial Power Consumers Association of Alberta ("IPCAA") in its SIP, that the Application "does not propose to increase the level of the AESO investment for DTS interconnections." During the AESO's 2007 GTA proceeding, extensive evidence on investment level was filed by several parties. Furthermore, as the AUC noted on page 95 of Decision 2007-106 on that GTA, "Setting the appropriate level for the maximum investment allowance is a balancing act." The AESO considers that the 2007 GTA proceeding did not result in a definitive and formulaic methodology for setting investment level. An updated investment level was therefore not included in the rates update application, as the AESO expected such a proposal would prompt further debate that would delay what would otherwise be a straightforward and uncontroversial review. Extensive debate and an extended schedule would be more suited to a GTA, rather than the expedited process anticipated for the rates update application.
- 7 In addition, as stated above, the purpose of the Application is to update rates to effect recovery of a greater portion of the AESO's revenue requirement through base rates and to correspondingly reduce the portion recovered through Rider C. Rider C charges and credits are determined without regard to investment level, and any revenue requirement undercollection on currently-approved base rates would be collected through Rider C without any increase to investment level. The Application therefore does not include any proposal to adjust investment level.
- 8 The AESO acknowledges the concern expressed by IPCAA, and suggests that it would be more appropriate to address this in the context of the AESO's 2010 GTA. Specifically, the AESO proposes to include in the GTA a methodology to update the investment level at the same time rates are updated in future years between more comprehensive GTAs. As part of the 2010 GTA, the AESO intends to seek AUC approval of a proposed methodology. Once approved, it would provide an additional straightforward and uncontroversial component of a rates update application. The AESO accordingly submits that changes to investment level should not be addressed in this Application, and such considerations should not delay approval of the rates included in this Application. Such matters can be satisfactorily addressed in the AESO's 2010 GTA.

2 AESO 2009 Forecast Costs

9 The AESO's revenue requirement consists of costs related to wires, ancillary services, transmission line losses, and the AESO's own administration (which includes other industry costs and general and administrative costs). The Application includes a forecast total revenue requirement of \$1,123.9 million for 2009.

10 The AESO is not seeking approval in the Application of its 2009 forecast revenue requirement. The AESO's forecast costs have been approved through other processes as provided for in relevant legislation, including:

- wires-related costs in the TFO tariffs approved by the AUC under section 37 of the *Electric Utilities Act* ("EUA"),
- ancillary services costs related to the provision of ancillary services acquired from market participants under subsection 30(4) of the EUA,
- costs of transmission line losses under subsection 30(4) of the EUA, and
- the transmission-related costs and expenses incurred by the AESO in accordance with paragraph 1(1)(g) of the *Transmission Regulation*.

11 The wires-related costs included in the Application are based on the TFO tariffs approved by the AUC for 2009, on either a final or interim basis, on the date the Application was filed.

12 The ancillary services costs, losses costs, and administration costs described above are approved by the AESO Board (acting as the "ISO members" described in section 8 of the EUA) in accordance with the *Transmission Regulation*. Subsections 46(1), 48(1), and 48(2) of the *Transmission Regulation* provide that these costs, once approved by the AESO Board, must be considered as "prudent" by the AUC unless an interested person satisfies the AUC otherwise.

13 In Information Request AUC.AESO-005, the AUC requested additional information on the allocation of administration costs between the three AESO functions of transmission, energy market, and load settlement. In response, the AESO provided the detailed allocation methodology presented as part of the AESO's budget approval process for 2008 and 2009. In general, costs are directly assigned where possible, and where direct assignment is not possible are allocated using relevant factors such as activity-based analysis, number of staff, or financial transactions.

14 No party has raised concerns of imprudence with respect to these costs approved by the AESO Board.

3 2009 Rates Update

15 In the Application, the AESO does not propose any change to the functionalization, classification, and allocation of the AESO's revenue requirement as approved in AUC Order U2008-217 released on June 25, 2008 on the AESO's 2007 GTA. The AESO also does not propose any change to any of the responses to specific directions issued by the AUC as part of the 2007 GTA proceeding with respect to the design and structure of the AESO's rates.

16 The AESO simply calculated the rate levels for each AESO rate based on the 2009 forecast revenue requirement discussed in section 2 (pages 8-15) of the Application, using the rate calculations approved in AUC Order U2008-217. In addition to the overall updating of rates to

reflect the AESO's 2009 revenue requirement, the AESO provided additional details on updates to some specific aspects of its rates, including:

- Fort Nelson Demand Transmission Service Rate FTS,
- Demand Opportunity Service ("DOS") and Export Opportunity Service ("XOS") Rates,
- Primary Service Credit ("PSC"), and
- Regulated Generating Unit Connection Costs ("RGUCC") charge in Rate STS.

- 17 The updated rate calculations are based on the AESO's forecast of rate billing determinants for 2009. Those billing determinants are in turn based on the 2009 load forecast in the AESO's *Future Demand and Energy Outlook (2008-2028)*, which is the AESO's long-term load forecast prepared in accordance with the AESO's duties under the EUA and the *Transmission Regulation*. The billing determinants forecast incorporates additional information, including current contract capacity and known contract capacity changes during the forecast year, ratchets based on historical peak demand information as well as new forecast peak demands during the forecast year, and historical substation fraction data.
- 18 The AESO further examined the reasonableness of the 2009 forecast billing determinants by comparing them to the actual billing determinants recorded by the AESO in 2008 and 2007. The AESO considers that the increase in billing determinants forecast for 2009 is reasonable when compared to recorded billing determinants for the two prior years.
- 19 In Information Request AUC.AESO-007, the AUC questioned the potential impacts of global economic events on Alberta energy consumption in 2009. In response, the AESO explained that it prepares its long-term forecasts annually through a regular and thorough process. The forecast used for the Application was completed in the third quarter of 2008 based on economic information from Spring 2008 before the major economic events occurred later in the year. The AESO further noted that, with respect to billing determinants, it is more conservative to **not** reduce the forecast as lower billing determinants would result in higher charges in the AESO's rates.
- 20 No party raised concerns with the rates calculations included in the Application, and matters raised in information requests on the forecast billing determinants were addressed in the AESO's responses. The AESO therefore submits that the updated dollar amounts resulting from the rate calculations should be approved as filed, together with the associated rate and rider schedules which reflect those amounts.

4 Effective Date of Updated Rates

- 21 In section 1.4 (page 7) of the Application, the AESO had requested the updated rates be approved to be effective on July 1, 2009, on either an interim or final basis.
- 22 As discussed in section 1 (paragraph 3) of this argument, the AESO intends the rates update to be accompanied by a correspondingly reduction to Deferral Account Adjustment Rider C. Rider C is established at the beginning of each calendar quarter (January 1, April 1, July 1, and October 1) and, in accordance with its stated purpose, is calculated "to restore the deferral account balances to zero over the following calendar quarter." The AESO considers it important that the effective date of the rates included in the Application be established in coordination with the Rider C process.
- 23 Specifically, the AESO will need to know if the updated rates will be effective in an upcoming quarter, prior to calculating Rider C for the quarter. If updated rates are ordered to be effective

in a quarter **after** Rider C has been calculated at the beginning of the quarter, then the rate increase would occur without a corresponding decrease in Rider C for the balance of the quarter. The effect would be a potentially-significant overcollection from customers which would then be refunded through Rider C in a subsequent quarter, resulting in unnecessary instability in customer bills.

24 Given the lack of issues raised with respect to the Application, the AESO submits that the updated rates should be approved to be effective October 1, 2009, concurrent with the setting of Rider C for the third quarter of 2009. In addition, the AESO requests that it be given about 30 days notice prior to the rates becoming effective, to allow adequate time to program and test the rates in the AESO's billing system.

5 Conclusion

25 The AESO submits that no information request has raised any substantive matter requiring correction or revision to the rate calculations or rate and rider schedules included in the AESO's 2009 Rates Update Application.

26 Having consideration for all the foregoing, the AESO submits that its Application should be approved as filed, and that the relief requested in section 1.4 (pages 6-7) of the Application should be granted in full, subject to considerations with respect to the effective date of the updated rates discussed in section 4 above.

27 If you need any additional information related to this argument, please contact me at 403-539-2465 in Calgary or by email to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO
Raj Sharma, Senior Tariff Analyst, Regulatory, AESO