



July 17, 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: Dwayne Ward, Application Officer

Dear Dwayne:

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

1 The Alberta Electric System Operator (“AESO”) provides the following reply argument on the above-noted application (“Application”), in accordance with the schedule set out in the May 27, 2009 letter of the Alberta Utilities Commission (“AUC”). In preparing this reply argument, the AESO has considered the arguments filed by the Industrial Power Consumers Association of Alberta (“IPCAA”) and the Utilities Consumer Advocate (“UCA”).

2 The AESO considers that some matters raised in the argument of those parties have already been satisfactorily addressed in the AESO’s 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.

### **1 Alignment of Tariff Components**

3 IPCAA recommends (paragraph 5) that an increase to investment levels is necessary “to continue the alignment between the charges, credits and investment levels achieved by the Board in the AESO’s last GTA.”

4 UCA similarly states, “The UCA is also generally supportive of continuing the alignment between AESO rates and its investment function.”

5 The AESO considers that the alignment of the point of delivery (“POD”) charge, primary service credit (“PSC”), and investment levels in its tariff is maintained through the Rates Update Application. As explained in the Application (pages 3 and 16), there has been no change to the structure, functionalization, classification, and allocation related to rates and no change to the

terms and conditions of service in the Application. More specifically, the POD charge, PSC, and investment levels are all based on the same POD cost function as provided in Table 4-4 (lines 1-5) in the Application. The POD cost function is the same as that approved by AUC Decision 2008-037 on the AESO 2007 General Tariff Application (“GTA”) Refiling, as provided in Schedule Comm.AESO-001 (h)-B-5.4 (lines 1-5) during the 2007 GTA Refiling proceeding.

6 The AESO accordingly submits that the Application maintains the same alignment between AESO rates and investment levels as exists in the current tariff, and no revisions to the Application are required to maintain such alignment.

## 2 Increase to Investment Levels

7 IPCAA notes in its argument (paragraph 6), “POD charges recover from customers the revenue required to pay for the embedded system costs used to interconnect customers to the transmission system.” IPCAA also notes (paragraph 8), “Costs that are not rolled-in [to embedded costs and recovered through the POD charge] are recovered through a direct and immediate incremental charge to the interconnecting customer.” IPCAA therefore correctly acknowledges that POD charges relate to embedded costs, while investment levels relate to incremental costs.

8 IPCAA’s argument overlooks a further distinction between POD charges and investment levels. POD charges, as part of the interconnection charges calculated in Tables 4-5 and 4-6 in the Application, recover:

- a share of the TFO revenue requirements summarized in section 2.2 (pages 12-14) of the Application, which include capital, operations, maintenance, and administrative costs, and
- a share of the AESO administrative costs summarized in section 2.5 (pages 14-15) of the Application, which include other industry, administrative, and general costs.

9 In contrast, investment levels, and any related contributions arising from the application of investment levels in the AESO’s tariff, recover only the capital costs of facilities used for the interconnection of customer services.

10 In short, POD charges relate to embedded capital, operating, maintenance, and administrative costs of TFOs and the AESO, while investment levels relate only to incremental capital costs of TFOs. However, IPCAA apparently disregards these differences in its argument by stating (paragraph 11) that “interconnecting DTS customers obtaining the AESO’s standard service will be increasingly paying a higher proportion of incremental costs as a result of any inflation in the underlying connection costs” and then concluding (paragraph 17), “Moreover, there is at present no need to speculate as to the appropriate ‘inflation adjustment.’ The AESO has indicated that a 20% increase in POD costs and the PSC are warranted now.”

11 Because of the differences discussed above, inflation of POD charges (representative of embedded capital, operating, maintenance, and administrative costs of TFOs and the AESO) is not comparable to inflation of investment levels (representative of incremental capital costs of TFOs). For example, as a result of AUC Decision 2008-037 on the AESO 2007 GTA Refiling, POD charges increased an average of 1.5% (from Schedule Comm.AESO-001 (h)-B-5.11 in that proceeding) while investment levels increased an average of 51% compared to the previous tariff (for the 48 interconnection projects from which the POD cost function was derived).

- 12 There are obviously multiple considerations involved in determining an appropriate investment level. IPCAA summarizes (paragraph 14) the AUC's views on them from AUC Decision 2007-106 on the AESO's 2007 GTA. Of note is the concluding sentence of IPCAA's quote (paragraph 12) from page 19 of that decision: "Such consideration [of the effects of inflation on POD costs] should occur, if necessary, in the context of a future GTA." As the AESO explained in its argument (paragraphs 6-8), the AESO intends to request approval of a methodology to address the effects of inflation on POD costs as part of its 2010 GTA.
- 13 As summarized earlier in the same quotation by IPCAA from Decision 2007-106, the AESO included an inflation adjustment to POD cost data in the 2007 GTA by using the Alberta Consumer Price Index ("CPI") to escalate all interconnection project costs to 2007 dollars. Such an approach is not comparable to the increase in POD charges over a similar period of time. IPCAA has provided no evidence why a 20% increase is more appropriate than, for example, use of Alberta CPI to further escalate the POD cost function to 2009. The AESO notes that IPCAA asked no information requests on the matter and did not ask to file intervenor evidence, thereby leaving interested parties with insufficient information and little opportunity to assess its recommendation.
- 14 Finally, the AESO considers another distinction between POD charges and investment levels to be important. As explained on page 4 of the Application, although the AESO's revenue requirement is primarily recovered through approved "base rates", any shortfall or surplus between actual costs and base rate revenue is either recovered or refunded through deferral account riders. In effect, regardless of what increase is approved for the AESO's rates, the AESO will collect from customer only the actual revenue requirement needed in 2009 or any other year. The same cannot be said of investment levels. Investment levels are applied, in the AESO's opinion appropriately, on a final basis in accordance with the currently-approved tariff. If investment levels are increased beyond what may be necessary, those levels are not subject to deferral account adjustment or reconciliation. Investment levels should therefore be established only through either a GTA proceeding or using an approved methodology, as the AESO intends to pursue in its 2010 GTA (as explained in paragraphs 6-8 of the AESO's argument).
- 15 The AESO accordingly submits that there is insufficient evidence on the record in this proceeding to support IPCAA's recommendation that the maximum investment levels approved in the AESO's current terms and conditions be increased by 20%.

### **3 Conclusion**

- 16 In conclusion, as noted by the AESO in its argument (paragraph 6), "[T]he 2007 GTA proceeding did not result in a definitive and formulaic methodology for setting investment level." In the absence of such a methodology, it is inappropriate to accept IPCAA's recommended 20% increase for the reasons provided above. The AESO submits that the appropriate venue in which to consider the effects of inflation on investment levels is the AESO's next GTA, consistent with the conclusion already reached in Decision 2007-106.
- 17 For these reasons, the AESO submits that IPCAA's recommendation for a 20% increase to the AESO's maximum investment levels should be dismissed in its entirety.

18 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.

Yours truly,

*[original signed by]*

John Martin  
Director, Tariff Applications

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