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Posted on AESO website

POD Cost Function and Investment Level Update Working Group
Amortized Customer Contribution Option and Other Contribution Provisions Working Group
Tariff Provisions Related to Customer-Owned Substations Working Group
AESO Stakeholders

Dear Working Group Member:

Re: Final POD Cost Data Set for 2010 Tariff Application

Enclosed is the final point of delivery (POD) cost data set to be used for the AESO's 2010 tariff application. The data set updates the version posted on the AESO's website on May 28, 2009, to reflect conclusions reached in discussions with the POD Cost Function and Investment Level Update Working Group as well as with other working groups.

The data set is presented in the Excel Workbook titled "2009-09-09 AESO 2010 Tariff Consultation – POD Cost Update Data.xls". The AESO offers the following comments on the information provided in the nine worksheets in the workbook.

The first worksheet, "projects", includes description, cost, and capacity information for the 64 greenfield projects and 67 upgrade projects in the data set. All cost data on this first worksheet is in original cost dollars.

The second worksheet, "escalator", provides the composite price index used in subsequent worksheets to escalate the original costs to 2010, the base year for the AESO's tariff application. The composite price index is a weighted average of Statistics Canada indices from 1987 to 2008, and a forecast of the Alberta Consumer Price Index for 2009 and 2010.

The third worksheet, "cost-function-std", first escalates the greenfield standard facilities project costs to 2010 and then, in the fourth worksheet, "raw-cost-function-Std", determines the average power curve function that is a best fit through the escalated standard facilities cost data points. The "cost-function-std" worksheet also provides the straight line segment average cost function based on that power curve, and a similar function after application of a 1.15 multiplier, using the methodology approved in the AESO's 2007 GTA proceeding.

In the AESO's 2010 GTA, the AESO proposes to discontinue the standard facilities definition that exists in the current tariff, and to rely on the maximum investment level to provide an appropriate cost signal to customers. As a result, the fifth worksheet, "cost-function-tot" escalates the greenfield **total** project costs to 2010 and then, in the sixth worksheet, "raw-cost-function-Tot", determines the average power curve function that is a best fit through the escalated **total** cost data points. The "cost-function-tot" worksheet also provides the straight line segment average cost function based on that power curve, and a similar function after

application of a 1.06 multiplier. The 1.06 multiplier applied to the average **total** cost function results in approximately the same AESO investment as the 1.15 multiplier applied to the average **standard facilities** cost function, based on the 64 projects included in the data set.

The seventh worksheet, “compare-std-tot”, provides a comparison of the actual investment in each of 64 projects under the two approaches — the existing approach based on standard facilities cost and a multiplier of 1.15, and the proposed approach based on total cost and a multiplier of 1.06.

The eighth worksheet, “upgrade-projects”, graphs:

- the unit investment, in \$/MW, available under the proposed approach and
- the average unit cost, in \$/MW, for the upgrade projects included in the data set.

In general, the AESO considers that the unit investment reasonably reflects the unit costs of the upgrade projects.

The ninth and final worksheet, “psc”, provides the average percentage of POD costs attributable to substation and line on which the primary service credit and related investment level is based. Based on the 46 projects for which detailed costs are available, the substation costs represent 78% of total project costs, compared to the 55% used for the current tariff. The primary service credit will therefore be proposed to increase in the 2010 tariff, and the maximum investment available for such projects will decrease.

Note that although this workbook is considered final in form and structure, it may be further updated with more recent data if such data becomes available prior to the filing of the AESO’s 2010 tariff application.

The workbook and all other printed information related to the POD Cost Function and Investment Level Update Working Group is available on the AESO’s website at www.aeso.ca by following the path Tariff ► Current Consultations ► 2010 Tariff. The AESO appreciates stakeholders’ participation in this consultation.

The AESO will be contacting members of the POD Cost Function and Investment Level Update Working Group to schedule one final meeting to discuss these results in the next few days. In the meantime, if you have any comments or questions on the final POD cost data set or the AESO’s tariff application, please contact me at 403-539-2465 or john.martin@aesoc.ca, or Raj Sharma at 403-539-2632 or raj.sharma@aesoc.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

enclosure

cc: Raj Sharma, Senior Tariff Analyst, AESO