

**Reference:** AESO Application, p. 58-60 – Rider I Proposal

**Preamble:** The Application filed by the AESO recognizes that in previous AUC proceedings a Rider I concept was proposed as an alternative to Management Fees requested by both ATCO Electric and AltaLink. As well, the Commission deferred consideration of these requests to a generic proceeding.

**Request:**

- (a) Does the AESO consider that its proposed Rider I addresses the same issues and concerns as the previously proposed ATCO Electric Management Fee? If yes, please explain how. If no, please explain the aspects of the ATCO Electric Management Fee that are not covered by the AESO's proposal.
- (b) Please explain how the proposed Rider I addresses the issue of both TFOs and DFOs not being compensated for owning, operating, maintaining and managing assets for which they do not receive any compensation or profit element.
- (c) Please confirm that under the AESO's proposed Rider I market participants can "opt out" of paying the Rider I and that in such circumstances the impacted TFO would not receive any compensation for owning, operating, maintaining and managing the subject assets.
- (d) Please confirm whether the AESO considers that the assets that would be subject to Rider I would be part of the TFO's "transmission system", as that term is defined in the *Electric Utilities Act*.
- (e) Please confirm that under the AESO's proposed Rider I, to the extent a market participant opted to pay Rider I, the TFO would be able to include the full amount of the facilities cost in rate base.
- (f) Please confirm that Rider I would be charged by the AESO to the market participant and paid by such market participant directly to the AESO.
- (g) Please explain how the Rider I amount would be determined in circumstances where the market participant originally "opted out" and paid the full contribution, but then "converted" to Rider I after 5 years.
- (h) What criterion would the AESO use when assessing whether it should deny or revoke a market participant's request to utilize Rider I?
- (i) Please describe the AESO's assessment of the response, if any, it has received from market participants regarding the Rider I proposal during the stages of the Rider I development.

- (j) (i) Please explain the AESO's views if a 'direct connect' market participant to a DFO POD were to default in Rider I payment (or is unable to meet all financial obligations) what recourse would be available to the AESO?
- (ii) Would the AESO expect the DFO to bear all financial risk if the 'direct connect' customer were to default under the above scenario?
- (k) Would the AESO amend its Rider I design in the event the Commission considers a generic proceeding to address all management fee issues, as per its prior directions?
- (l) Please provide a more detailed definition of the "annual discount rate", as noted in the Rider I tariff.
- (m) Please clarify and explain the income tax treatment of the Rider I rate and its corresponding monthly charge. Please provide an example scenario.

**Response:**

- (a) Commission Decision 2009-087 on ATCO Electric 2009-2010 GTA provided the following summary of ATCO Electric's issues and concerns:

*AE maintained that a management fee was necessary because:*

- *AE does not receive any compensation for the ownership, operation and maintenance of the assets financed by CIAC [contributions in aid of construction] and the assumption of risks associated with these assets;*
- *section 122(1)(h) of the EUA clearly provides the Commission the authority to grant the requested relief; and*
- *the level of CIAC diminishes its approved level of return (currently 8.75 percent) by some 57 basis points to an effective return of 8.18 percent. [section 3.2, page 10, paragraph 29]*

The AESO considers that its proposed Rider I will address ATCO Electric's concern with respect to compensation for transmission assets financed by construction contributions, subject to the amount of contributions converted to amortized payments under Rider I. When a construction contribution is converted to Rider I payments, ATCO Electric would be able to include that amount in its transmission rate base and earn a return on it which would avoid diminishment of ATCO Electric's approved level of return, again subject to the amount of contributions converted under Rider I. ATCO Electric would also be earning a conventional return on those transmission assets that would otherwise be financed by construction contributions, which should address any concerns with respect to the Commission's authority to approve such an arrangement.

- (b) As discussed in part (a) above, the proposed Rider I addresses concerns with respect to compensation for TFO assets financed by construction contributions. As the proposed rider would be part of the ISO tariff that applies to system access service, it would not address similar concerns with respect to compensation for DFO assets financed by contributions.
- (c) Confirmed.

- (d) Confirmed. “Transmission system” as defined in subsection 1(1)(ccc) of the *Electric Utilities Act* means “all transmission facilities in Alberta that are part of the interconnected electric system.” All TFO-owned assets used to provide system access service would be part of its transmission system whether financed by construction contributions or through amortized payments under Rider I.
- (e) Confirmed. The AESO also notes that, if a market participant was eligible for investment under the ISO tariff, the amount of that investment would already be included in the TFO’s rate base whether the market participant paid a construction contribution or amortized payments under Rider I.
- (f) Confirmed. Rider I payments would be collected from market participants as part of the monthly settlement process described in section 13 of the terms and conditions of the ISO tariff.
- (g) Assuming a 20-year term for Rider I, if a market participant requests a construction contribution be converted to Rider I payments after 5 years, the construction contribution would be reduced by one-quarter (5/20) in accordance with subsection 3(1)(b) of the Rider I rate sheet and then returned to the market participant.

The Rider I payment would then be determined by substituting the appropriate values for the variables in the formula provided in subsection 2(2) of the Rider I rate sheet. Assume the following values for the variables:

- construction contribution = \$10,000,000
- n = 6
- term = 20
- rate = 7.6% (assumed discount rate of 7.5% plus 0.1%)

The Rider I payment in the 6th year (the year after year 5) would be:

$$\begin{aligned} \text{monthly charge} &= \frac{\text{construction contribution}}{\text{term}} \times \left\{ \frac{1}{\text{term}} + \left[ \left( 1 - \frac{n-1}{\text{term}} \right) \times \text{rate} \right] \right\} \times \frac{1}{12} \\ \text{monthly charge} &= \$10,000,000 \times \left\{ \frac{1}{20} + \left[ \left( 1 - \frac{6-1}{20} \right) \times 7.6\% \right] \right\} \times \frac{1}{12} \\ \text{monthly charge} &= \$89,166.67 \end{aligned}$$

In this example, the market participant who had initially paid a construction contribution of \$10,000,000 would be refunded \$7,500,000 at the beginning of year 6 and would then start paying Rider I amounts of \$89,166.67 per month.

- (h) As explained in section 4.16 of the application (page 61, paragraph 307), the AESO would deny or rescind the conversion of a construction contribution to an amortized monthly charge under Rider I “only if significant and substantiated doubt existed about the viability of the project or the financial stability of the market participant” or “if a market participant was in default on any other amounts owed to the AESO or to a TFO.” The AESO expects to use as criteria for such a decision all available credit information related to the market participant, including the market participant’s compliance with

AESO payment terms, credit ratings by credit rating agencies, current bankruptcy proceedings, and any indications that the market participant may abandon or discontinue operation of the project for which system access service is being provided.

- (i) As discussed in information response AUC.AESO-011, The AESO understands that market participants generally support the AESO's proposed Rider I, but any who commented on whether they would take advantage of Rider I indicated it would depend on the final Rider I details that are approved as well as analysis of several factors, including financing costs applicable to the individual market participant and other opportunities for capital investment available to the market participant.
- (j)
  - (i) Under both the AESO's current and proposed tariffs, the tariff defines the rights and obligations of the AESO and the party receiving system access service. If a transmission-connected market participant is a customer of the DFO, and the DFO is the party receiving system access service under the relevant system access service agreement with the AESO, then the DFO has the obligation to pay any construction contribution related to the service as well as the monthly charges for the service. If the DFO defaulted on any payments relating to the system access service, including payments under Rider I, then the AESO would have the right to suspend system access service and realize upon any financial security provided by the DFO and to pursue the DFO for all outstanding amounts owing to the AESO. Outstanding amounts would include full payment of any unpaid balance of the construction contribution under the provisions of section 9 of the terms and conditions of the proposed ISO tariff.
  - (ii) As discussed above, the DFO is the party receiving system access service under the system access service agreement with the AESO, and is therefore the party required to meet the financial obligations to the AESO related to the service. The AESO would expect the DFO to manage its financial risk in accordance with its own tariff, credit, and security practices.

The AESO notes that this situation exists today for connection costs covered by investment related to a system access service for a transmission-connected market participant that is a customer of a DFO.
- (k) The Commission's consideration of a generic proceeding to address management fee issues was recognized in section 4.16 of the application (page 59, paragraph 296), where the AESO stated, "In the event the Commission determines that all matters related to Rider I should be addressed in a generic proceeding, the AESO would expect to participate in that proceeding and would essentially re-submit the following information [in section 4.16 of its application] at that time."
- (l) The annual discount rate is fully defined in subsection 11 of section 8 of the terms and conditions of the proposed ISO tariff.
- (m) The income tax rate applicable to the TFO is included in the calculation of the discount rate in subsection 11 of section 8 of the terms and conditions of the proposed ISO tariff. The inclusion of the income tax rate recovers from the market participant the income tax payable by the TFO on the return on the equity portion of the TFO's rate base. The inclusion of the income tax rate in the discount rate calculation should not affect the way a TFO determines its income tax obligation.

**Reference:** AESO proposed Terms and Conditions – s. 4

**Preamble:** ATCO Electric would like to better understand the AESO's proposal with respect to the preparation of connection proposals and its consistency with the obligations imposed on the AESO.

**Request:**

- (a) Please explain why the AESO considers that all market participants are qualified to develop their own connection proposals.
- (b) Does the AESO envision any limitation on the size, scope or complexity of connection proposals that would be prepared by market participants?
- (c) Would there be any exceptions to the AESO proposal? How would these be addressed? Can a market participant decline or opt out of preparing a connection proposal?
- (d) Under the AESO's proposal, would market participants have to evaluate a number of potential or possible solutions and prepare a business case (cost/benefit analysis) supporting the option selected?
- (e) Would the market participant be required to identify and evaluate solutions to correct "system" deficiencies that may need to be addressed prior to implementing the connection? If not, how would this situation be handled under the AESO's proposal? Does the AESO consider that all market participants are qualified to complete this assessment?
- (f) Under what circumstances would the AESO direct the owner of the subject Transmission facilities to prepare and submit a NID for a connection project?
- (g) Does a TFO have the ability or discretion to refuse to prepare a NID if requested to do so by the AESO? If not, why not?
- (h) If the AESO directs a TFO to prepare a NID for a connection proposal, can the TFO include all associated costs in its Transmission tariff (in accordance with Section 40(1) of the Transmission Regulation)?
- (i) Under what circumstances would the AESO: (i) direct a TFO; or (ii) request a market participant, to file a facilities application for a connection project? How would the AESO decide which option would be adopted in any specific situation? What criterion would be employed by the AESO in reaching this conclusion?
- (j) Please reconcile the AESO's proposal to request a market participant to file a facilities application with Section 9.1 of the AESO Rules and Section 24 of the Transmission Regulation.

**Response:**

- (a) Although the market participant is responsible for the preparation of the connection proposal, the AESO does not expect that the market participant will itself always complete the work involved in preparing the proposal. As contemplated in subsection 5(1) of section 4 of the proposed tariff, the market participant may engage a third party consultation or a TFO to develop the proposal. The work, including any studies for the connection project, must be stamped and signed by a professional engineer. Additionally, the AESO will be available for support throughout the process. The AESO will ensure connection proposals are completed to a consistent standard through the review and deficiency identification process provided in subsection 5(4) of section 4 of the proposed tariff, prior to acceptance of the connection proposal including any required studies.
- (b) The AESO has not at this time established specific limits on the connection proposals that could be prepared by a market participant. When establishing the process for developing the connection proposal under subsection 3 of section 4 of the proposed tariff, the AESO reserves the right to require that connection studies for a project must be completed by the AESO. The AESO has created an initial list of criteria that will be considered in making such a determination, and expects the criteria will continue to evolve over time as experience is gained with the new connection model. The principles underlying these criteria consider:
- the degree of integration with future undefined or evolving system development plans;
  - the potential for involvement of multiple TFO or DFO jurisdictions;
  - the size of generator or load and potential system reinforcement impacts or requirements;
  - the interdependency or integration with other connection projects;
  - the possibility that the determination of system-related vs. participant-related costs may impact project feasibility; and
  - the requirement for future system reliability considerations or specifications.
- (c) A connection proposal is a requirement of the connection process. Market participants are responsible for ensuring a connection proposal is developed, although different approaches to that development are available as discussed in part (a) above. Generators will generally be required to arrange the development of a connection proposal, assuming the proposal is not required to be completed by the AESO under the criteria and principles discussed in part (b) above. Market participants initiating load connection projects may engage the AESO for the development of the connection proposal.
- (d) As provided in subsection 3 of section 4 of the proposed ISO tariff, early in the connection project process a connection project scope will be determined and confirmed with all involved parties. This document will include any alternatives that are to be considered in studies for the connection proposal. The comparison of alternatives is not expected to look any different than under the previous process. The connection proposal itself will not be accepted by the AESO unless it is consistent with the project scope and is in the connection proposal format provided by the AESO.

- (e) Should a party other than the AESO identify system constraints as part of developing a connection proposal for a market participant, that party is expected to work with the AESO technical resource assigned to the project to determine the next steps required in the process. The project team would coordinate an approach and determine who could best provide the needed technical solution and whether the solution should be included in the project's connection proposal or whether a separate system project is required.
- (f) The AESO is required to submit all needs identification documents ("NIDs") to the Commission. The AESO is currently developing a process with respect to NID preparation that contemplates engaging a TFO to prepare the NID, including the completion of any required studies, the participant involvement program, and cost estimates. This process has been discussed with the TFOs and the AESO will continue to work with industry on the process communication and implementation.
- (g) The AESO generally expects to work cooperatively with TFOs in the preparation of NIDs, and does not anticipate directing a TFO to prepare a NID if the TFO is unwilling to do so. However, subsection 14(1) of the *Transmission Regulation* states, "As part of the duties of a TFO under section 39 of the Act, the TFO must, as directed by the ISO, assist the ISO in...preparing and updating needs identification documents." Under subsection 39(4) of the *Electric Utilities Act*, the TFO may refuse to comply with a direction from the AESO if the TFO considers that there is a real and substantial risk of damage to its transmission facilities, a real and substantial risk to the safety of its employees or the public, or a real and substantial risk of undue injury to the environment. The AESO does not expect that any such risks would arise in relation to the preparation of a NID, and therefore does not believe the TFO would have the right to refuse to comply with a direction from the AESO to prepare a NID.
- (h) Yes, the AESO expects that, when a TFO incurs costs in preparing a NID in response to a direction from the AESO, the TFO could include those costs in its transmission tariff in accordance with subsection 40(1) of the *Transmission Regulation*.
- (i) The AESO expects its normal practice to continue to be that it directs TFOs to file the facilities applications for connection projects.

Sections 35(2) and 36 of the *Electric Utilities Act* permit the AESO to request a market participant to submit a facilities application to the AESO for approval and to subsequently file that application with the Commission. Although such a practice is not contemplated by the AESO at this time, the AESO reserves that right as provided by legislation and has recognized it in subsection 6 of section 4 of the proposed ISO tariff.

As the AESO expects its normal practice to be to direct TFOs to file facilities applications for connection projects, at this time no criteria have been established for varying from that practice.

- (j) As stated in part (i) above, the AESO expects its normal practice to be to direct TFOs to file facilities applications for connection projects, which is the practice contemplated in ISO Rule 9.1 and section 24 of the *Transmission Regulation*. In the event the AESO proposes a different practice, legislation would be reviewed to ensure the proposed practice complies with applicable provisions, and relevant ISO rules would be reviewed and, if necessary, revised.

**Reference:** Terms and Conditions – Section 5

**Preamble:** ATCO Electric requires additional detail regarding the AESO's proposal regarding financial security.

**Request:**

- (a) In circumstances where the form, substance and amount of financial security is at the discretion of the TFO, how will the AESO ensure that system access service is offered in a non-discriminating manner? Does the AESO retain any role in this regard? If so please explain fully.
- (b) Please explain how the AESO's proposal impacts on its obligations as the "sole" provider of system access service.
- (c) If the TFO has the discretion to determine if a project has been abandoned or terminated (Section 5.5(3)), how does this impact on the AESO's obligations to be the sole provider of system access service and to ensure non-discriminatory access? Does the AESO retain any role in this regard? If so, please explain fully.

**Response:**

- (a) The possible forms of security are listed in subsection 3(4)(a) of section 5 of the proposed tariff. The substance of the security relates to the physical evidence of security that must be provided by the market participant. The amount of security is established in accordance with subsection 2 of section 5 of the proposed tariff. The AESO considers that these provisions in its tariff provide sufficient guidance such that the TFO will give effect to security requirements in a consistent and non-discriminatory manner.

As developed through the connection process redesign project, the AESO expects to work closely with the TFO throughout project delivery and will provide input and direction where required. The AESO will also monitor the connection process to ensure the consistent and transparent implementation of requirements related to connection projects.

- (b) As provided in section 4 of the proposed tariff, market participants must apply to the AESO for system access service, and the AESO determines the connection project scope and confirms the process for delivering the connection project. A TFO can act on a system access service request only after the connection project is assigned to the TFO by the AESO. The AESO remains accountable throughout the process for the delivery of system access service in accordance with its approved tariff. The AESO considers that these provisions reflect the AESO's obligations as sole provided of system access service.

- (c) As provided in subsection 8 of section 2 of the proposed tariff, “Where...an owner of a transmission facility...is granted any discretion pursuant to the ISO tariff (whether explicitly granted or indicated through the use of ‘may’ and whether with respect to granting consent or withholding consent to a particular matter or otherwise),...the owner of the transmission facility...must exercise such discretion acting reasonably in every instance.” In subsection 5(3) of section 5 of the proposed tariff, the TFO has the discretion to (“may”) deem a project to be cancelled and must accordingly exercise that discretion acting reasonably. As explained in part (b) above, the AESO remains accountable throughout the connection process for the delivery of system access service in accordance with its approved tariff.

**Reference:** AESO proposed Terms and Conditions – Section 8

**Preamble:** ATCO Electric wishes to more fully understand the AESO's proposal that the TFO be the party to decide whether facilities are "in excess of those required by good industry practice".

**Request:**

- (a) Please explain why this determination is not properly made by the AESO.
- (b) How will the AESO's proposal ensure that this "test" is applied in a non-discriminatory manner by all TFOs, and in all situations?
- (c) Does the AESO propose that a standard set of criteria be employed by the TFOs in applying this proposal? If not, why not?
- (d) Please explain how the term "in excess of those required by good electric industry practice" is intended to be different than the former concept of facilities in excess of "standard facilities".

**Response:**

- (a) Please refer to information response AUC.AESO-019 (a).
- (b-c) Please refer to information response AUC.AESO-018 (e-f).
- (d) There are three main differences between the proposed facilities "required by good electric industry practice" and the current concept of "AESO Standard Facilities".
  - (i) AESO Standard Facilities are determined in the sole opinion of the AESO, while facilities required by good electric industry practice will be determined by TFOs. The AESO plans and develops Alberta's transmission system but does not own transmission facilities. TFOs, on the other hand, construct, own, and operate the transmission facilities. It is appropriate that determinations with respect to specific facilities be made by TFOs.
  - (ii) AESO Standard Facilities are required to be the least-cost facilities that would, at a minimum, supply the point of connection. Facilities required by good electric industry practice must have "regard to economic considerations" but are not restricted to least-cost approaches to the exclusion of all others and instead comprise the spectrum of reasonable practices, methods, or acts applicable to the circumstances. As discussed in section 6.11.3 (page 115) of the application, economic discipline is expected to be provided through construction contributions being more commonly required due to the alignment between costs and

investment level and due to investment being limited by the maximum available based on the market participant's contract capacity and investment term.

- (iii) AESO Standard Facilities are stated to “generally consist of a single radial transmission circuit and a single transformer to supply an individual Point of Connection.” Facilities required by good electric industry practice include no such stipulation and instead rely on application of “the standard of practice attained by exercising that degree of knowledge, skill, diligence, prudence and foresight which would reasonably and ordinarily be expected from a skilled and experienced person.” As discussed in section 6.11.3 (pages 114-115) of the application, parties felt “required to adhere to the ‘minimum facilities’ connotation of the single line and single transformer language in the definition” although such an interpretation was not supported by past practice.



**Reference:** Relief Requested, Section 1.3 – Application, Page 8 of 268, Paragraph 29 – 31.

“The AESO requests, with one exception, that the tariff included in this application be approved to be effective no earlier than the first of the month at least 90 days after the date of the Commission’s decision on the proposed tariff, to allow adequate time to implement the tariff and to program and test the rates in the AESO’s billing system.”

“The AESO also requests, as the exception mentioned above, that the investment levels and other construction contribution provisions included in sections 8 and 9 of the proposed tariff be approved to be effective retroactive to January 1, 2010.”

“For additional clarity, the AESO requests the rates, riders, and terms and conditions in this application, other than those in sections 8 and 9, apply on a go-forward basis only, on their effective date after approval by the Commission.”

**Preamble:** ATCO Electric requires clarity as to which components of the tariff are proposed to be made effective on a prospective basis versus a retroactive basis.

**Request:**

Please provide a table that sets out which components of the rates and Terms and Conditions of Service are proposed to be made effective no earlier than the first of the month at least 90 days after the date of the Commission’s decision on the proposed tariff and on a retroactive basis to January 1, 2010.

**Response:**

The following table indicates the effective dates requested by the AESO for the different components of the proposed 2010 ISO tariff.

Tariff Component	Requested Effective Date
All rates	1st of month at least 90 days after Commission’s decision
All riders	1st of month at least 90 days after Commission’s decision
<b>Terms and conditions sections</b>	
1: Applicability and Interpretation of ISO Tariff	1st of month at least 90 days after Commission’s decision
2: Provision of and Limitations to System Access Service	
3: System Access Service Connection Requirements	

<b>Tariff Component</b>	<b>Requested Effective Date</b>
4: System Access Service Requests	1st of month at least 90 days after Commission's decision
5: Financial Obligations for Connection Projects	
6: Metering	
7: Provision of Information by Market Participants	
8: Construction Contributions for Connection Projects	January 1, 2010
9: Changes to System Access Service After Energization	January 1, 2010
10: Generating Unit Owner's Contribution	1st of month at least 90 days after Commission's decision
11: Ancillary Services	
12: Demand Opportunity Service	
13: Financial Security, Settlement and Payment Terms	
14: Peak Metered Demand Waivers	
15: Miscellaneous	1st of month at least 90 days after Commission's decision
<b>All appendices</b>	

The AESO notes the following provisions also impact the applicability of sections 8 and 9 of the proposed tariff.

- (i) In accordance with subsection 7(1) of section 8 of the proposed tariff, the construction contribution for a connection project will be calculated in accordance with the construction contribution provisions of the tariff in effect on the date on which the Commission issues permit and licence for the connection project.
- (ii) In accordance with subsection 4(1) of section 9 of the proposed tariff, for an adjustment to a construction contribution paid for a connection project, the adjustment will be determined in accordance with the construction contribution provisions described in the tariff as applied to the transmission facilities when constructed.

**Reference:** AUC Decision 2009-105, Summary of Commission Findings, Section 7, Page 11, Paragraph 58 (3):

“The Commission has determined that the Board’s error in the consideration of the O&M Charge in the context of the AESO’s customer contribution policy should be remedied by applying the O&M Charge only in respect of the cost of facilities which exceed the AESO Standard Facilities built for a new or expanded customer interconnection.” (emphasis added).

Section 6.11.8 – Application, Page 121 – 122, Paragraph 517:

“Decision 2009-105 summarized debate on this matter and noted that some parties (including the AESO) supported applying the operations and maintenance charge to only the cost of facilities in excess of standard while other parties supported applying the charge to all costs in excess of the maximum investment level applicable to the project. In particular, the AESO argued that the charge should apply to only the cost of facilities in excess of standard for reasons related to intergenerational equity, increased tariff complexity, reduced harmonization between AESO and DFO tariffs, and requirements for modifications to TFO processes and AESO practices”. (emphasis added).

Reference: Electric Transmission Operating and Maintenance Cost Study, Appendix C, Page 4:

“The Prepaid O&M Charge associated with optional facilities should be 14.5% of the capital cost of the optional facilities to ensure no cross subsidies between new customers with optional facilities and other customers.”

**Request:**

- (a) Please confirm whether the proposed O&M charge of 14.5% is to be applied to all facility costs (regardless of the change in definition to ‘good electric industry practice’), and which exceed the local investment determined in accordance with the T&Cs.
- (b) If confirmed, please explain in detail how the AESO’s proposal does not conflict with arguments advanced in the R&V Application (Application No. 1566390) regarding the fact that:
  - O&M costs are recovered in the annual revenue requirement of each TFO and as a result are recovered through the DTS rate;

- Customers will be subject to the O&M costs twice (through rates and the prepaid O&M); and,
  - The prepaid O&M charge results in cross subsidies between new customers with optional facilities and other customers.
- (c) Please explain in detail what is meant by the AESO's statement on Page 122 of 268, paragraph 518, that: "The AESO concludes that, on balance, the frustrations and concerns associated with the standard facilities definition as discussed on section 6.11.3 of this application now outweigh any remaining concerns with applying the operations and maintenance charge to all costs in excess of the maximum investment level applicable to the project."
- (d) Please explain in detail the assessment conducted of applying the O&M charge under the previous definition of standard facilities versus the proposed definition of Good Electric Industry Practice. Please provide examples.
- (e) Please provide a numerical example of the O&M proposal whereby the AESO investment level does not cover the full capital cost of the project.

**Response:**

- (a) Confirmed.
- (b) The listed points of argument from the review and variance application are in large part mitigated by excluding the O&M charge from facilities covered by investment. For example, there are 32 projects in the POD cost function data set from 2006 to 2009, years in which the standard facilities definition was in place in the AESO's tariff. Those 32 projects cost a total of \$323 million (in 2010 dollars). Using the 2010 investment function based on standard facilities as provided in the *POD Cost Function Workbook* (Appendix G to the application), that total cost would have the following breakdown:
- 69% (or \$222 million) would be covered by investment in standard facilities;
  - 22% (or \$73 million) would be standard facilities above the maximum investment level; and
  - 9% (or 28 million) would be facilities in excess of standard and not eligible for investment.

The AESO's proposed O&M charge would not affect the standard facilities covered by investment, since those facilities would continue to be excluded from the O&M charge. The AESO's proposed O&M charge would also not affect the facilities in excess of standard, since those facilities were previously subject to the O&M charge and would continue to be so. The AESO's proposed O&M charge would affect only the 18% of costs associated with standard facilities above the maximum investment level. The AESO considers that reducing those costs impacted by the application of an O&M charge to only 18% of all project costs reduces the concerns expressed by the AESO in argument in the review and variance proceeding.

As well, the AESO notes that concerns with respect to cross-subsidies between new and existing customers arise from new customers paying the O&M charge on a greater share of their facilities than existing customers. This concern diminishes over time as more market participants are connected under the "new" tariff provisions and the AESO rates begin to reflect the O&M charge paid by those customers.

- (c) The AESO's statement reflects the views summarized in part (b) above. The reduction of the costs impacted by the application of an O&M charge to only 18% of all project costs reduced the concerns previously expressed by the AESO. At the same time, the reasons for the removal of the concept of standard facilities, as discussed in section 6.11.3 (pages 114-116) of the application, were substantial: frequent disagreement on what facilities should be considered standard; inconsistency with past practice; less need due to better alignment between costs, investment level, and rates; inefficient use of resources when investment is more frequently limited by the maximum investment formula; and impediment to the new connection model.

The AESO considers that, on balance, the reduction of costs impacted by the AESO's proposed O&M charge plus the reasons supporting removal of the concept of standard facilities more than outweigh any remaining level of those concerns expressed in the review and variance application. As noted in part (b) above, those remaining concerns would also diminish over time as more market participants are connected under the "new" tariff provisions.

- (d) The AESO's assessment was summarized in section 6.11.8 (pages 121-122) of the application. Additional information is provided in parts (b) and (c) above.
- (e) Please refer to information response AUC.AESO-024.

**Reference:** Electric Transmission Operating and Maintenance Cost Study, Appendix C, Page 22:

“The Prepaid O&M charge should be based on O&M costs developed in this Study. The Prepaid O&M charge of 14.5% will ensure that the customer pays for the incremental cost of operations and maintenance including associated overheads. This will ensure that other customers are not required to subsidize a new customer who requires optional facilities.”

Section 6.11.8 – Application, Page 122, Paragraph 519:

“The AESO accordingly proposes in subsection 9 of section 8 of the proposed terms and conditions that the operations and maintenance charge of 14.5% apply to all demand-related costs above the investment determined for a project, as well as to the costs of any facilities deemed to be in excess of those required by good electric industry practice.”

**Request:**

- (a) Please explain the differences between the above two quotes. Why does the first quote only reference optional facilities, while the second quote refers to all demand related costs above the investment determined for a project?
- (b) Please provide a comprehensive list of the overhead costs that were contemplated under the Electric Transmission Operating and Maintenance Cost Study, as noted on Page 22 of the Study.

**Response:**

- (a) The first quote should more properly have referred to “facilities above the maximum investment level.” The costs (both capital and non-capital) related to facilities covered by investment for service under Demand Transmission Service Rate DTS is recovered through that rate in the ISO tariff. When a service requires facilities above the maximum investment level, the capital cost is recovered through a construction contribution. Recovering the associated non-capital costs through an O&M charge of 14.5% on that contribution will ensure that the market participant pays for the incremental cost of operations and maintenance including associated overheads, and that other market participants are not required to subsidize a new service that requires facilities above the maximum investment level.
- (b) The *Transmission O&M Cost Study* did not determine a precise definition of overhead costs. Three categories of costs were considered in Section 6 – Prepaid O&M Charges at page 20 including non-capital costs, O&M costs, and incremental maintenance costs.

Incremental maintenance costs are costs associated with the provision of maintenance services and therefore would have no TFO overheads. O&M costs include activities of organizing operating and maintenance and, as such, would include overheads. The general and administrative costs that make up part of non-capital costs would also include overheads.

**Reference:** Electric Transmission Operating and Maintenance Cost Study, Appendix C, Page 11 and 12 – Functionalization of Costs

**Request:**

- (a) Please specify the advantages and disadvantages of the three methods used to functionalize the electric transmission facilities.
- (b) Please provide a more detailed explanation and justification for functionalizing and allocating salary costs based upon voltage level as identified on page 13 of the Study.
- (c) Please provide a more detailed explanation and justification for functionalizing and allocating brushing costs based upon voltage level and line length as identified on page 14 of the Study.
- (d) Please provide a more detailed explanation and justification for functionalizing and allocating the remaining O&M costs between Bulk, Local and POD, as set out in Appendix A, AT Sch 5.1.

**Response:**

- (a) The *Electric Transmission Operating and Maintenance Cost Study* used only one method to functionalize non-capital costs. The functionalization of non capital costs was based on voltage level because it is objective, easiest to implement, and simple to explain.  
  
Three methods of functionalization were used in the earlier *Transmission Cost Causation Study* that was completed on the basis of capital costs. All three methods arrived at similar results, providing some assurance that the results were reasonable. For more information, please see the earlier study which is provided as an attachment to information response AUC.AESO-001 (a).
- (b) The transmission system functions of bulk system, local system, and point of delivery (POD) were used, consistent with previous studies. The three functions were defined by voltage level, bulk system being 240 kV and above, local system being 144 kV and below, and POD being point of delivery substations and radial transmission lines to the point of delivery substations. The goal of the exercise of functionalization is to categorize the costs as one of the three functions based on the definitions above. Therefore, if a person's work relates to facilities energized at 240 kV and above, the salary associated with that person would be functionalized as bulk system. People may work on more than one function, and therefore allocation factors were developed to allocate the person's salary to the functions that the person works on.
- (c) Brushing costs are typically incurred based on the area of land that is to be cleared. The area of land that requires clearing is a function of the length and the width of the

clearing. The total brushing cost is associated with the total area of typical rights of way for all of the transmission facilities. The functionalized cost of brushing is the proportion of the area under transmission facilities associated with each function. The higher voltage lines have wider rights of way than do lower voltage lines. Therefore, the brushing cost associated with the bulk system is a function of the line length of 240 kV and up transmission lines, and the typical rights of way associated with 240 kV and up lines.

- (d) The O&M costs that could be functionalized, were functionalized in AT Sch 5.1. There were some costs that were not readily functionalized and these costs are shown as Residual – Unallocated Amounts in AT Sch 5.2. The Residual – Unallocated Amounts were allocated on the basis of all other O&M costs for which allocators were developed.

**Reference:** Terms and Conditions – Section 6, p. 103-106

**Preamble:** ATCO Electric would like to better understand the implications of the AESO's proposal on TFOs.

**Request:**

- (a) Please provide the AESO's views on the relationship, if any, between a TFO's expenditures associated with a connection project and the costs that would be incurred by the TFO "in respect of the project, including cancellation costs, penalties and other similar costs".
- (b) Please describe the incremental costs the AESO considers that a TFO will incur in administering the AESO's proposed migration to collecting costs "according to a monthly cost schedule estimated by the TFO for the project".
- (c) Please describe the AESO's understanding of the TFO's internal project approval processes and explain how the AESO's proposed payment schedule aligns with such processes. Does the AESO expect that TFOs will be required to confirm receipt of monthly payments as part of their management processes? In the AESO's view, how should TFOs deal with a missed payment at any stage of the process (engineering, procurement, construction).
- (d) How would the AESO's proposal handle a variance between a TFO's forecast expenditures and actuals? Who would assume this variance risk?

**Response:**

- (a) A TFO's expenditures associated with a connection project would generally include all costs the TFO incurs in relation to the connection project, including costs incurred in preparation of the connection proposal, preparation of required application(s) and construction of the project. Those costs would be estimated in advance by the TFO and determined in accordance with section 8 of the proposed ISO tariff. The cost estimate may be revised from time to time to reflect changes that affect the connection project.

In addition, in the event a connection project is cancelled, a TFO may incur other costs with respect to the project, including cancellation costs, penalties, and costs for material salvage and reclamation of the construction site. Those costs would not be estimated in advance and would generally not be expected to be incurred, as connection projects are rarely cancelled.

- (b) The AESO does not expect that a TFO would incur material additional costs in administering the monthly cost schedule approach proposed in the 2010 ISO tariff. The AESO expects the TFO would prepare the monthly cost schedule before the start of construction for a project, based on the expected construction schedule. The only

additional administration after that would be the issuing of invoices and receipt of security and contribution amounts, which the AESO expects could be accommodated within existing TFO processes.

- (c) The AESO is not familiar with TFO's internal project approval processes, and notes that TFOs did not raise concerns with alignment with those processes during consultation on the financial obligation provisions in the proposed ISO tariff.

The AESO does not expect that TFOs will be required to submit confirmation of receipt of individual monthly payments.

As provided in subsection 7 of section 5 of the proposed tariff, if a market participant fails to provide security or construction contribution within 30 calendar days of a request for security or construction contribution, all work related to the connection project will be suspended. This should ensure that the TFO does not perform work and incur costs for which security or contribution has not been provided.

- (d) As provided in subsection 2(8) of section 5 of the proposed tariff, estimated costs for a connection project may be revised from time to time to reflect variances in the estimated or actual cost of the connection project compared to the original estimate. The market participant is responsible for financial obligations arising from such variances.

In addition, as provided in subsection 2 of section 9 of the proposed tariff, an adjustment to a previously-determined construction contribution may arise from a material variance in the estimated or actual cost of the connection project compared to the original estimate. The market participant is responsible for paying any increase in construction contribution resulting from such an adjustment.