Topic: Amortized Construction Contribution Rider I

Reference: AESO Application, Section 4.16, page 59, paragraph 298.

Preamble: Rider I must be structured such that any resulting financial benefits to a TFO are fully recovered from the market participant whose construction contribution is being amortized. Accordingly, the AESO proposes that Rider I must be an option for market participants, rather than mandatory, so that market participants can respond to the appropriate price signals.

Request:

Please explain how, if Rider I is not mandatory, Rider I will ensure the market participant making the contribution provides adequate compensation to the utility?

Response:

The total amount charged under Rider I would be the financial impact on the TFO of including in rate base the amount that would otherwise be paid as a construction contribution. The charges under Rider I reflect the capital structure, debt rate, return on equity, and income tax rate applicable to the TFO who owns the facilities, and should therefore provide adequate compensation to the TFO. Therefore, any market participant who elects to make amortized payments under Rider I would provide adequate compensation to the TFO in respect of that market participant's construction contribution.

If a market participant does not elect to utilize Rider I such that the TFO continues to hold the market participant’s construction contribution, Rider I would not have any impact on the compensation to the TFO.
Topic: Amortized Construction Contribution Rider I

Reference: AESO Application, Section 4.16, page 60, paragraph 305.

Preamble: AESO proposes to adjust the Rider I amount to reflect any construction contribution adjustments.

Request:

(a) Please confirm it is the AESO that administers billing to the specific customers for Rider I. If not, please explain.

(b) Please confirm how adjustments to Rider I will be tracked.

(c) Please confirm how adjustments to Rider I will impact (i.e. added to, or subtracted from) TFO payments.

Response:

(a) Confirmed. Rider I charges would be included on the monthly statements of account for system access service billed by the AESO to market participants.

(b) Adjustments to Rider I charges would occur as a result of construction contribution adjustments under section 9 of the terms and conditions of the proposed ISO tariff. Such adjustments are generally recorded as amendments to system access service agreements, and tracked through the AESO’s contract management processes.

(c) Adjustments to Rider I will not directly impact TFO payments. A TFO will continue to determine its annual revenue requirement and TFO tariff to the AESO as it currently does. Any adjustments to construction contributions and associated conversions to or from Rider I payments would only affect the amount of construction contributions held by the TFO. This would, in turn, increase or decrease the TFO’s rate base and result in changes to those components of its revenue requirement that relate to its rate base. Those changes would be reflected in due course in the TFO tariff approved for the TFO and paid by the AESO.
Preamble: The AESO reserves the right to deny a market participant’s request for Rider I, or to rescind Rider I if it is already being utilized by a market participant.

Request:
(a) Under what conditions would the AESO deny a market participant’s request for Rider I?
(b) Under what conditions would the AESO rescind Rider I if it is already being utilized by a market participant?

Response:
(a-b) The AESO has not determined specific conditions under which it would deny or rescind the conversion of a construction contribution to an amortized monthly charge under Rider I. Please refer to information response AE.AESO-001 (h) for additional information.
Topic: Amortized Construction Contribution Rider I

Reference: AESO Application, Section 4.16, page 61, paragraph 311.

Preamble: The AESO suggests that Rider I include a risk premium of 0.1% to address project abandonment risk that may arise through the availability of Rider I.

Request:

(a) Please confirm whether the accumulated risk premium collected will reside with the AESO and provide a rationale for your response.

(b) Please confirm that in the event of a Rider I customer default that the TFO will remain whole with respect to the shortfall. If not, why not?

Response:

(a) Please refer to information response IPCAA.AESO-009 (a-b).

(b) Confirmed. Rider I is proposed as a component of the AESO’s tariff. A market participant’s default with respect to Rider I payments would not create a revenue requirement shortfall for the TFO.
Topic: Financial Obligations for Connection Projects

Reference: AESO Application, Section 6.8, page 104, paragraph 425.

Preamble: The AESO proposes that a market participant be assessed in stages for the financial obligations for connection projects. The third stage would add all subsequent costs that the TFO would incur in construction of the connection project, according to a monthly cost schedule estimated by the TFO for the project. The third stage would apply from the Commission’s issuance of permit and licence to commercial operation of the connection project.

Request:

Please confirm whether customer payment can be more flexible rather than on a monthly basis as long as mutually agreed to by customer and TFO.

Response:

Confirmed. As stated in subsections 3(6) and 4(4) of section 5 of the proposed tariff, the market participant may provide security and construction contribution in amounts greater than the financial obligations described in subsection 2 of section 5. The TFO would still be expected to provide an estimated monthly cost schedule for the construction stage of the project, but the market participant and the TFO may agree to a bi-monthly, quarterly, or any other payment schedule as long as it always meets or exceeds the amounts established by the monthly cost schedule.
Topic: Financial Obligations for Connection Projects

Reference: AESO Application, Section 6.8, page 106, paragraph 429.

Preamble: At all times the security and contribution would be provided in advance of costs actually being incurred by the TFO. As well, any additional costs associated with procurement of long lead time equipment will be included at the stage in which such costs are incurred.

Request:

Please confirm that under this proposed term a TFO would always receive customer funding in advance of disbursements to suppliers.

Response:

Confirmed, for all disbursements above the maximum local investment determined for the connection project.

For disbursements below the maximum local investment (applicable only to system access service provided under Rates DTS and PSC):

- for connection projects for owners of electric distribution systems, the TFO would receive neither funding nor security in advance of the disbursements; and
- for connection projects for all other market participants, the TFO would receive security in advance of the disbursements.
Topic: Customer Contributions for Connection Projects

Reference: AESO Application, Section 6.11, page 107, paragraph 440.

Preamble: The AESO states that “changes proposed by the AESO reflect the contribution policy principles established during the proceedings on the AESO’s 2005-2006 and 2007 tariff applications. Decisions 2005-096 and 2007-106 on those applications, respectively, summarized the principles applicable to the AESO’s contribution policy.”

It is AltaLink’s understanding that historically, before the definition of “standard facilities” in the AESO’s previous tariffs, 80% of customer projects were not subject to contribution.

Request:

Under the AESO’s proposed formula changes in its 2010 tariff, what percentage of customer projects will be subject to contribution?

Response:

As explained in the 2010 POD Cost Function and Investment Level Update Recommendations (Appendix F to the application, page 16), 50% of connection projects would be fully funded by investment while 50% would pay some amount of construction contribution. This estimate is based on applying the proposed 2010 maximum investment level to the 64 connection projects analyzed in the POD Cost Function Update.

For additional context, the AESO stated in its 2006 tariff application (section 6.1, page 7) that under the previous contribution policy (prior to the “AESO Standard Facilities” definition approved in its 2006 tariff) “more than 90% of such [connection] projects have not required a customer contribution.”

Finally, the AESO notes that the “80/20 rule” was discussed in the AESO’s 2007 tariff application and rejected as a rule in Decision 2007-106 (section 8.1.2.1, page 93) where the Alberta Energy and Utilities Board stated:

> However, the direction to devise a multiplier such that 80% of projects…fall under the resulting maximum investment function represented no more than a direction to conduct a one-time study. The mention of 80% in the direction should not have been interpreted as a general endorsement of an 80/20 rule as a guiding principle, nor did it require that the 80% threshold be used by the Board in determining an appropriate multiplier for the maximum investment function for the 2007 tariff.

Please refer to information response AML.AESO-011 for additional information.
Topic: Customer Contributions for Connection Projects


Preamble: The AESO states that “[i]nvestment allowances should be set with regard to the anticipated costs of connecting a system access service reflecting acceptable standards of functionality and service established by the AESO”.

Request:

(a) Is the proposed escalation factor representative of anticipated future costs? Please provide a rationale for your response.

(b) Please describe how the proposed escalation factor tracks forecast changes in costs.

Response:

(a-b) The AESO interprets the principle quoted in the preamble as stating that investment level should remain current with costs anticipated for connection projects as they are built, not that investment level should be representative of future costs or should track forecast changes in costs.

The investment level proposed in the 2010 ISO tariff should be representative of the anticipated cost of connection projects in 2010. The investment level was based on the replacement cost new (RCN) value of recent connection projects, estimated using a composite inflation index described in the 2010 POD Cost Function and Investment Level Update Recommendations (Appendix F to the application, section 4.2, pages 7-9). The composite inflation index is based on historical Statistics Canada indices for different cost categories applicable to connection projects, up to 2009. The AESO considers that recent connection projects should be comparable to ones constructed in the near future (including 2010) in terms of standards of functionality and service, and using the selected Statistics Canada indices should result in an escalation factor appropriate to transmission connection projects.

As Statistics Canada indices are available on an historical basis only, the composite inflation index used a Conference Board of Canada forecast of Alberta CPI to escalate costs from 2009 to 2010. Alberta CPI is not particularly well-aligned with transmission costs, but forecasts of transmission price indices are not publicly available. Any inaccuracy from the use of Alberta CPI for the final year of escalation should be minimal.

To ensure that investment level remains current with connection project costs after 2010, the AESO proposes to update the composite inflation index and apply it to the maximum investment level in an annual tariff update process, as discussed in section 8.2 (pages 259-261) of the application.
Topic: Facilities in Excess of Good Electric Industry Practice

Reference: AESO Application, Section 6.11.3, page 116, paragraph 486.

Preamble: The AESO proposes that the TFO can deem facilities to be beyond those required by good electric industry practice.

Request:

(a) Please confirm the AESO’s preferred method by which TFOs should monitor for customers’ excessive interconnection requests.

(b) If the AUC determines that a TFO should have requested a higher contribution, should the TFO be subject to the difference between the AUC-determined contribution and the TFO-requested amount?

Response:

(a) The AESO expects that TFOs would assess whether facilities are consistent with good electric industry practice during their preparation of facilities applications for a connection project. Please refer to information response AUC.AESO-019 (a) for additional information.

(b) The AESO considers that a revision to facilities deemed to be in excess of those required by good electric industry practice would be an event resulting in an adjustment to a construction contribution under section 9 of the proposed tariff. Such construction contribution adjustments are to be paid by the market participant under subsection 7 of section 9.
Topic: Rider I – Amortized Construction Contribution Rider

Reference: Section 7, pages 37-38.

Preamble: The Rider I monthly charge will be determined annually on the date of commercial operation and subsequent anniversaries of that date.

Request:

(a) Please confirm that customers who opt for Rider I treatment will continue to be eligible to have their customer contribution refunded should the AESO determine that their interconnection (in whole or in part) becomes part of the system.

(b) If the answer to (a) is yes, please confirm that TFOs will be permitted to refund back the principle balance to the Rider I customers (according to the AESO’s refund investment policy) and add the payment to its rate base.

Response:

(a) Confirmed. As stated in subsection 3(2) of the Rider I rate sheet, “If a construction contribution adjustment is determined in accordance with section 9 of the ISO tariff for a market participant to whom Rider I is being charged, the adjustment refunded or charged to the market participant will be reduced by that fraction of the term, defined in subsection 2(2)(c) above, representing the number of years, in whole or in part, from the settlement period in which the adjustment is effective to the end of the term.”

Such adjustments would include “facilities previously classified as participant-related being reclassified as system-related” as indicated in subsection 2(2)(d) of section 9 of the ISO tariff.

(b) Confirmed. The reduced contribution that is refunded would represent the principal balance at the time of the refund. The refund would reduce the customer contributions held by the TFO, which would result in an increase to the TFO rate base in the amount of the refund. The AESO understands that such treatment would be consistent with a TFO’s usual determination of its rate basis, and should accordingly be permitted by the Commission.
Topic: 2010 POD Cost Function and Investment Level Update Recommendations

Reference: AESO Application, Appendix F, Section 5.4, page 16.

Preamble: In the AESO’s sample set of 64 projects, based on total facilities costs with a multiplier of 1.06, only 32 projects (50% of all projects) would receive full investment.

A key recommendation coming out of the 2008, AltaLink led industry consultation process was a set of guiding principles for the contribution policy. One of those guiding principles (1.8) is re-stated as follows:

1.8 The Customer Contribution Policy needs to consider most customers should not pay a contribution for standard facilities. In this way, utilities would be compensated for the assets that they own, operate and use to provide service. Historically, policy in Alberta has supported postage stamp rates wherein transmission load customers with reasonable interconnection costs do not pay up-front costs to interconnect to the AIES. Reasonable interconnection was that the majority of customers should not pay a contribution for standard facilities.

* * *

Historical interconnection costs are recovered from customers, via tariffs, over the life of their connection to the system. This results in utilities being compensated for owning and operating assets that they utilize to serve customers. This principle has been largely met in some tariffs by applying the “80/20 rule”.

Request:

Please explain why the AESO’s investment formula has not been adjusted to ensure the majority of customers connecting to the transmission system do not pay a customer contribution.

Response:

The AESO commented on the quoted recommendation from AltaLink’s industry consultation process in section 6.11 (page 109, paragraphs 455-456) of the application.

With respect to the “80/20 rule”, that approach was discussed in the AESO’s 2007 tariff application and rejected as a rule in Decision 2007-106 (section 8.1.2.1, page 93) where the Alberta Energy and Utilities Board stated:
However, the direction to devise a multiplier such that 80% of projects...fall under the resulting maximum investment function represented no more than a direction to conduct a one-time study. The mention of 80% in the direction should not have been interpreted as a general endorsement of an 80/20 rule as a guiding principle, nor did it require that the 80% threshold be used by the Board in determining an appropriate multiplier for the maximum investment function for the 2007 tariff.

Decision 2007-106 in the same section (pages 97-98) added:

To be clear, an 80/20 rule is not to be relied on in future when amending the maximum investment policy.

That decision also approved an investment level under which 56% (27 projects) of the 48 connection projects in the data set would be fully funded by investment while 44% would pay some amount of construction contribution. The investment level proposed in the 2010 ISO tariff was developed on a similar basis and results in 50% of connection projects being fully funded by investment while 50% pay some amount of construction contribution.

Decision 2007-106 further stated (page 95), “Setting the appropriate level for the maximum investment allowance is a balancing act.” The AESO provides a number of principles that must be considered when setting investment level, in section 6.11 (pages 107-110) of the application. The AESO’s proposed investment level is a reasonable approach that balances those considerations.

The recommendation quoted in the preamble also includes the concern that utilities should be compensated for the assets that they own, operate, and use to provide system access service. Please refer to information response AML.AESO-001 for comments on how proposed Rider I addresses this concern if a market participant elects the rider.