

Reference: Section 4.16 - Amortized Construction Contribution Rider I

Preamble: Page 60 states:

303 The AESO proposes that the Rider I amount be recalculated annually to reflect changes to the capital structure, debt rate, return on equity, and income tax rate applicable to the TFO. An annual recalculation is consistent with annual TFO tariff determinations. Annual amounts would simply be divided by twelve to calculate the monthly Rider I charges, similar to the division of a TFO's annual revenue requirement by twelve to determine monthly TFO tariff charges to the AESO.

304 Since the financial impact is attributed to the market participant who elects Rider I, the AESO suggests it is reasonable to allow a market participant to "convert" a construction contribution to an amortized payment under Rider I at any time. The amount converted would be the balance which would have remained unamortized at the time of conversion, if the full contribution had been amortized for the project initially. The AESO proposes a market participant may convert to an amortized payment only once, to avoid excess administration of Rider I amounts and to prevent opportunities to "game" differences between the tariff discount rate and short-term financing costs applicable to the market participant.

305 Of course, the Rider I amount would also be adjusted to reflect any construction contribution adjustments due to changes in contract capacity or investment term, other market participants' use of shared facilities, or other events under section 9 of the terms and conditions.

Request:

- (a) Before making its proposal for Rider I, did the AESO undergo any sort of assessment of the effect on the degree of harmonization between the AESO Tariff and Distribution Tariffs of the owners of electric distribution systems for large end-use customers connecting to the transmission and/or distribution systems? If so, please describe. If not, why not?
- (b) Given that some Distribution Tariffs of the owners of electric distribution systems effectively flow through a pro-rata share of AESO transmission contributions to large end-use distribution customers, will the AESO allow a portion of a POD contribution collected from an owner of a distribution system to be converted to Rider I? If not, please explain.
- (c) Recognizing that the Rider I proposal was raised in previous AltaLink and ATCO Electric rate cases as a means to address the Management Fee proposals in those cases due to large accumulating customer contribution balances, and the Commission has proposed

to initiate a generic management fee module proceeding, did the AESO propose Rider I, at least partially, to address those concerns? If not, please explain. If so, does the AESO agree that its Rider I proposal at the transmission level would still not resolve similar management fee concerns at the distribution level (i.e. large accumulating distribution customer contributions for distribution facilities)? If not, please explain.

- (d) Please provide the AESO's views on another alternative approach to Rider I and/or management fee proposals, whereby increases to investment levels in both the AESO transmission and distribution tariffs would be proposed to minimize large customer contributions more globally, while still providing an economic signal to connecting customers.
- (e) The AESO proposes that the Rider I amount be recalculated annually to reflect changes to the capital structure, debt rate, return on equity and income tax rate applicable to the TFO. Given the variations between those factors for FortisAlberta versus AltaLink – and especially the non-taxable nature of FortisAlberta – might it be that even without the small risk premium of 0.1% that the AESO proposes to add, there remains a benefit to customers of FortisAlberta of not moving to Rider I?

Response:

- (a) The AESO did not try to quantify the effect of Rider I on harmonization between the AESO tariff and the tariffs of owners of electric distribution systems (“DFOs”). The AESO notes that Decision 2007-106 on the AESO’s 2007 tariff application directed an investment level for the AESO with a structure unlike that of any DFO. The same decision noted (section 9.2, page 119) “that the requirements of the harmonization related directions from Decision 2005-096 have been addressed in full” by the AESO.

The AESO acknowledges that its proposed Rider I has no common counterpart in current DFO tariffs, except for similarities to ATCO Electric DFO’s Rider E Special Facilities Charge. The AESO considers that the merits of Rider I as described in the application warrant the potential reduction in this aspect of harmonization between AESO and DFO tariffs.

- (b) The AESO proposes that Rider I be available to all market participants who receive system access service under Rate DTS and who are required to pay a construction contribution, subject to the AESO’s ability to deny or rescind requests for Rider I. Rider I would therefore be available to DFOs, but is not proposed to provide for conversion of only part of a construction contribution to amortized payments. The AESO considers that allowing conversion of part of a construction contribution would:
- significantly increase the complexity of administering Rider I,
 - decrease the clarity, certainty, and transparency of Rider I, and
 - potentially lead to confusion and disputes if the construction contribution was subject to a later adjustment which could affect amortized payments under Rider I.
- (c) The AESO noted in section 4.16 of the application (page 59, paragraph 296) “that the Commission is considering a generic proceeding to address management fee issues and that those issues may include a Rider I approach.” Please refer to information responses AE.AESO-001 (b) and (k) for additional information.

- (d) The AESO considers that its maximum investment level would have to increase significantly to address market participants' concerns with the frequency and amount of contributions and the magnitude of costs (and associated contributions) required for some connection projects. On the other hand, Decision 2007-106 on the AESO's 2007 tariff application considered that "the lower investment allowance permitted in Decision 2005-096 did not discourage investment" (section 8.1.2.1, page 95) and that "the ability of the maximum investment function to provide an economic signal may be significantly diminished over time" if constantly updated to reflect increasing project costs (section 8.1.2.1, page 96). As well, the AESO considers that significantly increasing the maximum investment level would raise concerns with the proposal to remove the concept of standard facilities as discussed in section 6.11.3 (pages 114-116) of the application.

Significantly increasing the maximum investment level would also result in the financial benefits accruing to the TFO being recovered from all market participants under Rate DTS rather than from just those market participants whose construction contributions are being amortized. This would dilute the price signal provided to market participants and would not provide any mitigation of the risk of abandonment of a project that had received significant investment for system access service.

- (e) The AESO expects each market participant will make its own decision with respect to Rider I based 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.

The AESO notes, however, that AltaLink and ATCO Electric have proposed a management fee approach to address concerns with the levels of contributions they hold, with an estimate of potential total management fees provided in information response TCE-Keystone.AESO-002. DFOs assessing the financial cost and benefit of the Rider I approach should also include the costs and benefits of other approaches in their analysis.

Reference: Terms and Conditions Section 14 – Peak Metered Demand Waivers; Application Section 7: Proposed ISO Tariff – Terms and Conditions, page 82

Preamble: Causes Eligible for Peak Metered Demand Waivers

- 2(1)** The **ISO** may waive peak **metered demand** for a **market participant** for the purpose of calculating **billing capacity** when the peak **metered demand** was caused by one of the following:
- (a) **commissioning**;
 - (b) activities required to repair and maintain **transmission facilities**;
 - (c) load restoration activities that:
 - (i) follow an **outage** of **transmission facilities** or facilities that are part of an **electric distribution system**; or
 - (ii) are caused by an **emergency** on the **transmission system**;
 - (d) compliance with a **directive** the **ISO** issues during an **emergency**; or
 - (e) an event of **force majeure**.
- (2)** In addition, the **ISO** may waive peak **metered demand** for an **owner** of an **electric distribution system** for pre-scheduled activities required to maintain facilities that are part of its **electric distribution system**.

Request:

(a) Please define “activities required to repair and maintain transmission facilities”. Specifically, does “maintain” include the operation of transmission facilities by the TFO/AESO to prevent overloading of such facilities?

(b) Please consider the following case example:

A new substation is being installed to allow for transfer of load from an existing substation to the new one to accommodate load growth but the new substation has not yet been completed due to a delay in the in-service date by the TFO/AESO. To avoid overloading of the TFO’s existing substation and causing subsequent harm to such facilities, load was requested to be temporarily transferred to another third substation thus causing temporary additional load at the third substation POD.

Would such an event be qualified by the AESO as “activities required to repair and maintain transmission facilities;” and be eligible for a demand waiver at the third substation POD? If not, please explain.

(c) It was FortisAlberta’s understanding that Operating Policies and Procedures (OPP) 1202 Peak Metered Demand Waivers is proposed to be removed since the “subject matter was appropriately and adequately contained in the ISO tariff”. OPP 1202 included

“Activities required to repair and maintain distribution facilities” as a “waiver event”. Section 14 in the ISO Tariff does not list this as a “waiver event”.

With the removal of OPP 1202 and the absence of “Activities required to repair and maintain distribution facilities”, will this in any way affect how the AESO approves waivers? If so, please explain. Please quantify how the AESO’s billing determinant forecast was adjusted to account for any such change in application of waivers, if contemplated.

Response:

- (a) “Repair” and “maintain” are used in their common senses in the quoted text. “Repair” commonly means to restore something broken or damaged to good condition, while “maintain” commonly means to ensure that something continues to work properly by checking it regularly and making repairs and adjustments if required. In general, maintenance activities would include repair activities, and all such activities would be of short duration rarely exceeding a day or two. Where transmission facilities were operated to prevent short-duration overloading of equipment, it would generally be considered a maintenance activity.
- (b) The described example would not generally be considered repair or maintenance due to the extended duration of the load transfer, which is assumed to be in the order of months based on the comment on the delay in the in-service date. Extended delays of in-service dates may be more reflective of short planning horizons, unplanned project changes, or other factors rather than repair and maintenance requirements. The AESO notes that long-term transfers of contract capacity between substations can be accommodated within the tariff, and in such cases demand history is usually transferred in proportion to the contract capacity.
- (c) Section 14 of the proposed tariff was intended to continue the provisions of Article 16 of the current tariff, without change in content. The current Article 16.1 (b) states that demand waivers are available for distribution utilities “for pre-scheduled activities required to maintain distribution facilities”. Subsection 2(2) of section 14 of the proposed ISO tariff similarly states, “In addition, the ISO may waive peak metered demand for an owner of an electric distribution system for pre-scheduled activities required to maintain facilities that are part of its electric distribution system.”

As discussed in part (a) above, maintenance activities would generally include short-duration repair activities. The AESO considers that the OPP 1202 provision related to “repair and maintain distribution facilities” is contained in both existing Article 16 and proposed section 14, and OPP 1202’s removal should not affect the AESO’s approval of peak metered demand waivers. As the proposed section 14 does not change the AESO’s peak metered demand waiver provisions, there was no adjustment required to the forecast billing determinants.