

Topic: Varying Usage Charge Component of the Operating Reserve Charge Calculation

Reference: Section 2 – 2010 Revenue Requirement
Section 4 – Rate Design
Section 5 – Rate Calculations
Section 7 – Rates

Preamble: In paragraph 172, Section 4 – Rate Design of the AESO’s 2010 ISO Tariff Application, the AESO states that it will continue to provide a forecast average all-hours percentage of pool price charge as part of Rates DTS and FTS. The stated purpose of this forecast is to provide a substitute tariff calculation in the event of missing data and to determine financial security requirements under section 13 of the ISO tariff.

As owners of distribution utilities, the Cities also rely upon the forecast average all-hours percentage of pool price methodology for the purposes of distribution tariff rate-making.

The Cities observe that all three purposes for calculating the all-hours percentage of pool price charge are to reflect a current and accurate expectation of go-forward operating reserve costs.

The Cities note that in Schedule “5-6 DTS Rate” of Section 5 – Rate Calculations of the AESO’s Application, the varying usage charge is calculated as the sum of the total DTS Operating Reserve and Black Start costs divided by the product of total metered energy for all DTS Customers and the 2010 forecast pool price. The Cities observed that the pool price used in this calculation is \$66.38 as per Schedule “5-10 Determinants” of Section 5 – Rate Calculations.

The Cities further note that in section 2.3 of its Application, the AESO states that the 2010 forecast for ancillary services is based on a forecast average pool price of \$64.37/MWh. The Cities understand that the same pool price forecast was approved in the AESO’s *2010 and 2011 Business Plan and Budget Proposal*, and is based on the June 8, 2009 EDC Associates Ltd. commodity price forecast as stated in the AESO’s 2010 Budget Summary, posted on the AESO website on January 29, 2010.

Request:

- (a) Please provide the source and date of the AESO’s 2010 forecast pool price as shown on Schedule 5-10.
- (b) Please indicate how frequently (e.g. monthly, quarterly, annually, etc.) the AESO obtains new pool price forecasts, such as the EDC Associates commodity price forecast referenced above.

- (c) Please confirm that there are no additional reasons or purposes for calculating a forecast average all-hours percentage of pool price charge, other than what is cited by the AESO in paragraph 172 of the application.
- (d) Please re-calculate the all-hours percentage of pool price charge based on the AESO's most current pool price forecast. In the supporting detail, please provide the average annual forecast price and indicate the source and date of this forecast. Additionally, please ensure the same pool price forecast is used for forecasted operating costs related to operating reserves and black start services.
- (e) The Cities submit that current and relevant pricing information as described in part (c) would be of benefit to at least some DTS customers. Please discuss the administrative process that would be required of the AESO to provide periodic forecast updates to the all-hours percentage of pool price charge. In consideration of the process that would be required, how frequent could such updates be provided (e.g. annually, bi-annual, quarterly, or monthly)?
- (f) Please provide an order of magnitude estimate of how future Rider C charges and credits will be affected by the proposed new operating reserve charge. The Cities acknowledge that Rider C charges and credits vary between periods and depend on many factors other than operating reserves. However, the intent of this request is to reasonably quantify the anticipated long-term shift of dollars and/or volatility from Rider C to the proposed operating reserve charge.

Response:

- (a) The pool price in Table 5-10 is the same forecast hourly pool price from the June 8, 2009 EDC Associates Ltd. commodity price forecast as used elsewhere in the AESO's tariff application, but weighted by hourly forecast DTS usage (MWh) volumes as explained in Note 3 in Table 5-10.
- (b) The AESO subscribes to the Electricity SMP Predictions (ESP) commodity price forecast which is published weekly by EDC Associates Ltd.
- (c) Confirmed.
- (d) Forecasting costs of operating reserves and black start services is an extensive process that the AESO does not complete on a routine basis. The operating reserve volumes must also reflect the load forecast for the period, which the AESO prepares on an annual basis. An updated all-hours percentage of pool price would therefore require forecasts of operating reserves and black start service costs, load volumes, and pool price, all for the same forecast period. The AESO coordinates these forecasts on an annual basis when preparing forecast costs for a budget year.
- (e) As discussed in section 4.4 (pages 35-37) of the application, the AESO's proposal for an hourly allocation of operating reserve charges may potentially eliminate the significant variances in the recovery of operating reserve costs which occur under the current all-hours percentage of pool price charge. The Cities' request essentially asks the AESO to now forecast what the variance would be based on continuing the all-hours percentage of pool price approach with frequent updates to forecasts of costs, load, and pool price.

The AESO has proposed the hourly allocation of operating reserve charges because no other approach appeared to be as effective in reducing variances in the recovery of operating reserve costs. As explained in part (d) above, updates to the all-hours percentage of pool price charge would require updated forecasts of operating reserves and black start service costs, load volumes, and pool price, all for the same forecast period. Such updated forecasts could be prepared, but would require AESO time and resources to complete, would be of little direct benefit to the AESO, and would be expected to result in smaller but still significant variances between forecast and actual charges.

The AESO suggests it would be simpler, more efficient, and perhaps more effective for the Cities to implement measures such as deferral account riders to address recorded variances between forecast and actual operating reserve charges as they occur, rather than to try to forecast variances for future periods.

- (f) The AESO has proposed three changes in its 2010 tariff application to reduce the size and volatility of its deferral accounts:
- use of “reasonably expected” TFO wires costs for a forecast year’s revenue requirement;
 - hourly allocation of operating reserve costs; and
 - annual updates of rate levels between comprehensive tariff applications.

The AESO expects these three changes will significantly reduce Rider C charges after the 2010 tariff is implemented. However, to estimate just the impact of eliminating the operating reserve component of Rider C, the AESO offers the following summary of data from its 2009 deferral account reconciliation application, filed with the Commission on April 15, 2010 as Application No. 1606095 and Proceeding ID 589:

Rate Component	Rider C Collections (Refunds), \$ 000 000			
	2009	2008	2007	2006
Interconnection	\$72.8	\$61.8	\$34.1	\$14.5
Operating Reserve	44.2	83.1	36.8	13.3
Voltage Control	(17.1)	(9.7)	(11.6)	(12.4)
Other System Support	(3.1)	(1.8)	(1.2)	(0.3)
Total Rider C	\$96.8	\$133.5	\$58.1	\$15.1
Rider C Excluding Operating Reserves	\$52.6	\$50.4	\$21.3	\$1.8
Rider C Decrease (Increase)	46%	62%	63%	88%

Based on this analysis, the operating reserve component has accounted for 65% of Rider C charges on average since the current Rate DTS structure was implemented in 2006.