2011 Contribution Policy Working Group

Discussion Paper - Contributions between Utilities

A matter considered in-scope by the AUC with regards to the Transmission Contribution Policy Proceeding (ID No. 1162) includes:

(3) Examine whether a contribution should be required between two regulated utilities which already have underlying obligations to provide service; examine the potential impact on becoming a direct connect customer if distribution facilities owners do not have to make contributions in the future; and, investigate the means of mitigating any impacts.

Contributions between Regulated Utilities

As customers of the AESO, owners of electric distribution systems (DFOs) are currently subject to the same transmission rates and customer contribution policy as other customers of the AESO. The Commission has requested that the working group examine whether contributions should be required between two regulated utilities (DFO and AESO/TFO) which already have underlying obligations to provide service. The following are the pros and cons of continuing to require contributions from distribution companies for AESO connection projects:

PROS:

- Aligns with the new unbundled industry structure as established by the EUA;
- Supports a primary principle of a customer contribution policy which is to provide effective price signals, i.e. Does not effectively remove any price signals, to most transmission extensions in the province, given that the AESO customer is the distribution utility for most extensions (apart from ISDs and EUA Section 101(2) direct connects);
- Reflects the principles of cost causation and that contributions should be based on local costs;
- On principle, treats all load market participants equitably and therefore does not require significant changes to other elements of the AESO tariff (for example, separate cost allocations and/or rate classes for DFOs, or for each DFO/POD);
- Does not introduce issues around the differences between the transmission component of the distribution companies’ tariffs and the AESO tariff applied to a direct connect customer, i.e. de-harmonization or seams issues for large industrial customers served by a distribution company versus those who are released to be a direct customer of the AESO (EUA Section 101(2));
- Does not raise issues around maintaining intergenerational equity with existing PODs where a customer may or may not have paid a contribution;
• Would not require an AESO assessment of each TFO’s standards and costs associated with local transmission facilities to ensure that the customers of DFOs are not subsidizing each other with respect to local transmission facility costs within that service area.

• While the area of “management fee” is outside the scope of this proceeding, recent AUC Decision 2011-474’s denial of the management fee proposal on contribution amounts has removed customer concerns of “double-dipping”; that is, the case in which a TFO would charge a management fee on contributed assets, while a DFO owned by the same parent company was collecting a return on the AESO contribution.

CONS:

• If the currently inadequate investment levels are allowed to persist, may not equitably compensate transmission utilities that must own, operate and maintain the facilities.

Impact on Direct Connect Customers

The Commission has also requested that the working group examine the potential impact on becoming a direct connect customer if distribution facilities owners do not have to make contributions in the future; and, investigate the means of mitigating any impacts.

The term “Direct Connect Customers” is understood to refer to end-use transmission connected customers who have a dedicated Point of delivery (POD) and have been released by the distribution company to be a direct customer of the AESO in accordance with Section 101(2) of the EUA. This is in contrast to an end-use customer who defaults to be a customer of the distribution company as per Section 101(1) of the EUA.

If an approach is followed whereby distribution companies are not required to pay AESO contributions, the following ramifications are likely to ensue, which will impact not only direct connect customers, but all customers.

A likely development would be a request to the AESO by direct connect customers to develop separate cost allocations and rate classes for distribution company PODs versus direct connect customer PODs. This is a reasonable expectation as direct connect customers, who would be required to pay contributions to the AESO when their connection costs exceed the AESO’s maximum investment levels, would not want to subsidize the full transmission investment being granted to distribution companies by paying the same rates.

It is also expected that by waiving any contributions for distribution companies, concerns will be raised by customers of specific distribution companies that would not want to subsidize customers of other distribution companies that may have higher local transmission connection costs due to the standards established by the respective TFO or particular service area characteristics. Currently, any differential costs that exceed the AESO’s maximum investment level are contained and recovered from customers within that distribution company’s service area as a result of the distribution company paying an AESO contribution when the local costs exceed the maximum investment levels.

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If distribution companies are exempt from paying contributions, all customers will pay for those differential costs through AESO rates unless separate cost allocations and rates are determined for each distribution company. This will likely have a two-fold effect of either causing pressure on the AESO to develop separate rates for each distribution company’s PODs and could open the debate around standardization of the standards, practices and costs with respect to local facilities of each TFO. Also, in the interests of maintaining intergenerational equity, there will undoubtedly be questions around the treatment of existing PODs and whether they paid or did not pay a contribution and what AESO rate schedule should apply.

However, the largest impact to direct connect customers, and potentially to all customers, is that by deviating from the principle of treating all load market participants equitably not only raises the anticipated issues as noted above but will result in many unforeseen issues around the harmonization of the AESO and distribution tariffs. While there may be some differences between distribution companies and direct connect industrial customers in terms of responding to a price signal, it should be recognized, per the EUA, distribution companies are required to arrange for system access service on behalf of large transmission connected and distribution connected industrial customers as well.

By allowing separate rate classes to develop would effectively lead to issues around the differences between the transmission component of the distribution companies’ tariffs and the AESO tariff applied to a direct connect customer. This end result would be a de-harmonization for large industrial customers served by a distribution company versus those who are released to be a direct customer of the AESO. This would ultimately result in additional unforeseen issues around the granting of Section 101(2) EUA releases and potentially impede the orderly, economic and efficient development of the Interconnected Alberta Electric System as customers would have greater financial incentives to choose service between the AESO and/or the distribution companies.

As such, rather than introducing disparate treatment of load market participants and then attempting to mitigate the resulting issues and impacts, an approach which addresses the issue of the frequency and magnitude of customer contributions being too high due to inadequate investment levels (the single concern with the current treatment) would be the better course of action.