Alberta Electric System Operator
2012 Amortized Construction Contribution
Rider I Argument

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1 Application


As summarized in section 1.2 (page 4, paragraph 13) of the Application, the AESO requests approval of Amortized Construction Contribution Rider I, provided as Appendix A of the Application, to be effective as of a date determined by the Commission.

The AESO also requests:
- confirmation that the AESO has satisfactorily responded to the Commission directions in Decision 2011-474;
- approval of the definition of “financial information” for use in the ISO tariff, to be effective as of the same date as Rider I; and
- approval of the inclusion of a Rider I applicability provision in the terms of each of Rate DTS, Rate PSC, and Rate STS, also to be effective as of the same date as Rider I.

Several parties registered in the proceeding fully supported the AESO’s Application and recommended it be approved as filed, including FortisAlberta, the Industrial Power Consumers Association of Alberta, TransCanada Keystone Pipeline, and the Office of the Utilities Consumer Advocate. Two transmission facility owners, AltaLink Management and ATCO Electric, expressed concerns with certain aspects of the Application.

The process established for the review of the Application included opportunity for information requests. The AESO received information requests from:
- AltaLink Management Ltd. (AML); and
- ATCO Electric Ltd. (AE).

The AESO responded to the information requests from interveners on September 19, 2012.

The AESO provides the following written argument on matters addressed in the Application and raised in information requests. Lack of comment on any specific matter does not necessarily indicate lack of materiality or significance of that matter. In particular, if an information request simply asked for additional information or did not suggest an approach that differed from the AESO’s proposals, that request may not be referenced in this argument. The AESO reserves the right to respond in reply argument to matters raised by other parties which are not addressed in this argument.
2 Compliance With Decision 2011-474

In the Application (section 2, pages 5-12), the AESO responded to the four directions to the AESO included in Decision 2011-474:

- file a specific Rider I application,
- include adequate terms and conditions to prevent abuse of opt-out option,
- include adequate terms and conditions to control Rider I entries and exits, and
- resolve concern of Rider I term not matching depreciation lives of financed assets.

The AESO complied with the first direction through the filing of the Application itself. The remaining directions are discussed below.

2.1 Rider I Entry and Exit Provisions

The AESO’s responses to the second and third Rider I directions proposed the addition of provisions to Rider I respecting:

- decisions to deny a request for or rescind the conversion of a construction contribution to Rider I monthly charges; and
- termination of Rider I charges.

As explained by the AESO in the Application (section 2, pages 7-10), these provisions address the concerns around potential abuse of the Rider I opt out option and potential abuse of uncontrolled entries into and exits out of Rider I.

The AESO further noted in the Application (section 2, page 10, paragraph 32):

*The AESO suggests that these additional provisions are sufficient for the initial implementation of Rider I. The AESO will review market participant entry to and exit from Rider I prior to the AESO’s next comprehensive tariff application. If it appears that abuse of entry and exit flexibility is occurring, the AESO will propose more stringent entry and exit provisions in its next tariff application.*

The AESO submits that this approach is reasonable. The AESO’s periodic tariff applications provide opportunities for the AESO, a transmission facility owner, or an interested party to bring forward further recommendations to improve or refine Rider I. For this Application, Rider I as proposed in Appendix A of the Application sufficiently addresses the matters directed in Decision 2011-474, especially in the context of the lack of experience with Rider I and the lack of information on how many market participants will utilize Rider I (as discussed in information response AE-AESO-013).

AltaLink and ATCO Electric asked several information requests seeking more detailed information on the processes the AESO will use for the entry and exit provisions proposed in Rider I. In information responses AE-AESO-001 and AML-AESO-001, -002, and -003, the AESO noted that a reasonable level of detail related to those processes is already provided in proposed Rider I, the ISO tariff as currently approved, and the ISO rules as currently approved. The AESO included additional expectations for those processes where appropriate in those responses.

Subsection 1(5)(e) of proposed Rider I also requires the AESO to consider any reasonable expectation of harm that may occur to a transmission facility owner as a result of the conversion of a construction contribution to Rider I monthly payments. In information responses AE-AESO-003 and AML-AESO-005, the AESO explained that it planned to engage transmission facility owners in making determinations related to such expectation of harm and to primarily rely on transmission facility owners to identify such circumstances as they arise.
Subsection 4 of proposed Rider I establishes conditions for early termination of Rider I monthly payments. In information responses AE-AESO-005 and AML-AESO-007, the AESO expected that the potential impact of early termination of Rider I monthly charges would be similar to the potential impact of changes affecting construction contributions under existing provisions of the ISO tariff. In information response AML-AESO-009, the AESO similarly expected transmission facility owners would adjust their revenue requirements to reflect Rider I impacts in the same manner they currently adjust their revenue requirements as the ISO tariff changes and as construction contributions are determined and adjusted over time.

Both AltaLink and ATCO Electric asked how many instances would be considered “repeated conversions” or “repeated early terminations” in the context of Rider I, in information requests AML-AESO-004 and AE-AESO-002, respectively. The AESO responded that it has not established a specific number or frequency of instances that would be considered “repeated” and instead expects to consider the individual circumstances of each instance, at least until it gains sufficient experience with Rider I to establish a specific number.

The AESO submits that its responses to the information requests of AltaLink and ATCO Electric show that the entry and exit provisions included in Rider I, and the processes established related to those provisions, are reasonable and that no further modification of Rider I is required.

### 2.2 Rider I Term and Depreciation Lives of Financed Assets

In response to the fourth Rider I direction in Decision 2011-474, the AESO provided a simplified model in Microsoft Excel (Appendix C of the Application) which calculated the net present value of the capital-related components of a transmission facility owner’s revenue requirement when assets are financed through a construction contribution and when similar assets are financed using Rider I. The AESO acknowledged that there is a difference in the timing of cost recovery between the construction contribution approach and the Rider I approach (Application, section 2, page 11, paragraph 40). The capital-related costs of contributed assets are recovered more quickly with Rider I than when a construction contribution is conventionally amortized by a transmission facility owner.

The AESO further explained that since Rider I amounts initially reduce costs paid by non-Rider I market participants, Rider I effectively defers some costs that would otherwise be recovered from non-Rider I participants if the construction contribution had been conventionally amortized. However, in both the Rider I and conventional contribution amortization cases, non-Rider I market participants pay the same net present value of costs. (Application, section 2, page 12, paragraphs 45-46)

In information response AE-AESO-010, the AESO added, “With Rider I, the transmission facility owner receives the same revenue as if the project cost had been fully covered by investment: $8.56 million during the first 20 years and $1.44 million during the last 20 years (both amounts on a net present value basis).”

In conclusion, as stated in the Application (section 2, page 12, paragraphs 47), “as the net present value of costs recovered from non-Rider I market participants is the same whether contributed assets are financed through Rider I or through conventional construction contribution amortization, no modification of Rider I is required to address the difference between the 20-year Rider I term and the 40-year or longer average service lives of the contributed assets.”

### 2.3 Incidental Changes

As part of the Rider I revisions to respond to the directions discussed above, the AESO included several incidental changes in the Application. Those incidental changes included:

- use in the ISO tariff of “financial information” as already defined for use in the ISO rules;
inclusion of a Rider I applicability provision in the terms of each of Rate DTS, Rate PSC, and Rate STS in the ISO tariff; and

minor revisions to some of the provisions and language of Rider I to more clearly describe the associated rights and obligations and to reflect the AESO’s current practices for its authoritative documents.

No party objected to or questioned those incidental changes. The AESO accordingly submits those changes should be approved as filed.

Subsection 3 of proposed Rider I requires a market participant (other than a distribution system owner) to provide financial security under Rider I. Decision 2011-474 did not direct the AESO to modify Rider I financial security provisions, and they remained essentially unchanged from the provisions included in Rider I in the AESO’s Evidence on Rider I Matters filed in the 2011 generic cost of capital proceeding on March 14, 2011. The AESO did, however, replace a description of specific requirements for the form of financial security with a reference to section 103.3 of the ISO rules, Financial Security Requirements, where acceptable forms and other related provisions are described.

The AESO submits that the financial security provisions in Rider I are appropriate and sufficient, and that reference to section 103.3 of the ISO rules, Financial Security Requirements, is also appropriate and provides consistency of financial security provisions across all of the AESO’s authoritative documents.

AltaLink and ATCO Electric asked several information requests seeking more detailed information related to the financial security provisions proposed in Rider I. The AESO noted in response that a reasonable level of detail related to financial security requirements is already provided in section 103.3 of the ISO rules, with additional related detail in section 103.7 of the ISO rules, Financial Default and Remedies.

The AESO submits that its financial security requirements, as provided for in section 103.3 of the ISO rules, are appropriate and sufficient for the purpose of Rider I and that no modification of Rider I financial security requirements is required.
4 Conclusion

29 The AESO submits that no substantive matter has been raised in information requests that requires correction or revision to Rider I as included in the AESO’s 2012 Amortized Construction Contribution Rider I Application.

30 The AESO’s Application fully responds to the Commission’s directions in Decision 2011-474. As well, the AESO’s responses to information requests provided additional detail on specific matters relating to conversions of construction contributions to and from Rider I monthly charges and the financial security required under Rider I.

31 Having consideration for all the foregoing, the AESO submits that Rider I should be approved as filed and that the relief requested in section 1.2 (page 4) of the Application should be granted in full.

32 As noted in the Application (section 3, page 14, paragraph 53), the AESO requests that the Commission allow at least two full calendar months after issuing its decision before Rider I is to become effective.