Alberta Electric System Operator
2012 Construction Contribution Policy
Reply Argument

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Electric Transmission Contribution Policy Proceeding
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1 Introduction

The Alberta Electric System Operator (AESO) provides the following reply argument on its 2012 Construction Contribution Policy Application filed with the Alberta Utilities Commission (Commission or AUC) on June 20, 2012 as Application No. 1607193 and Proceeding ID No. 1162.

Besides the AESO, the following seven registered parties filed argument on the Application:

- ACCESS Pipeline Inc. (ACCESS);
- AltaLink Management Ltd. (AltaLink);
- ATCO Electric Ltd.;
- ENMAX Power Corporation (ENMAX);
- FortisAlberta Inc.;
- Industrial Power Consumers Association of Alberta (IPCAA); and
- the Office of the Utilities Consumer Advocate (UCA).

In addition, Devon Canada and Enbridge Pipelines (Athabasca) Inc. submitted letters supporting the argument filed by ACCESS.

All parties were supportive of the Application, with the exception of concerns expressed by ACCESS and the UCA related to the AESO’s proposed implementation of the recommended investment levels.

More specifically, in argument, ATCO Electric, ENMAX, FortisAlberta, and IPCAA recommended that the Application be approved as filed.

ACCESS stated (section 1, page 1, lines 2-3), "With the exception of the proposed implementation date ACCESS supports the AESO’s application to modify the current contribution policy."

AltaLink was "generally supportive of the AESO’s Application" (section 1, page 1, paragraph 1) and requested that "[t]he AESO’s Application be approved" (page 7, section 4, paragraph 36).

The UCA "recommends that the Alberta Utilities Commission (AUC) approve all aspects of the Application with one change to the AESO’s proposed implementation process ..." (section 1, page 1, paragraph 2).

In this reply argument, the AESO does not further comment on those points of argument which supported the Application. The AESO instead focuses on responding to the concerns raised in argument by ACCESS and the UCA, as well as clarifying one aspect of AltaLink’s argument.
2  Reply to ACCESS

As already noted, ACCESS supports the AESO’s Application with the exception of the proposed implementation date. (section 1, page 1, lines 2-3)

ACCESS recommends that the Commission approve the proposed investment levels to be effective retroactive to July 12, 2011 (section 1, page 1, lines 7-8), making the effective date about a year earlier than the AESO’s proposed date of July 1, 2012.

ACCESS states (section 5.1, page 12, lines 12-14) that “the AESO’s proposed effective date therefore creates an ‘investment cliff’ which penalizes projects that miss this date.” The AESO explained in information response ENPIPE-AESO-001 that implementing a material increase to investment levels would create such a “cliff” on any effective date. The selection of a date does not eliminate the “cliff” created by the materiality of the increase.

ACCESS then states (section 5.1, page 13, lines 11-14) that the impact of making the effective date about a year earlier “is significant and speaks to the underlying fairness issues of allocating close to $100mm more costs to these interconnection projects than would otherwise be the case under the AESO’s proposed investment levels.” In information response Attachment ENPIPE-AESO-002, the AESO identified 17 projects that received permit and licence between July 12, 2011 and June 30, 2012 and were assessed contributions that would be about $95 million less under the investment levels the AESO proposed to be effective July 1, 2012.

With respect to those 17 projects, ACCESS expresses concern (section 5.1, page 13, lines 21-23) “that a significant portion of the new projects that the AESO considered in developing the proposed investment levels will not receive the higher level of investment.” However, the AESO notes that a significant portion of the $95 million additional investment that ACCESS is arguing for arises from only a few of these projects. For example, only four projects (less than one-quarter of the 17 projects) account for almost $47 million — almost half of the $95 million amount ACCESS raises concerns about. Focusing on a subset of projects with a high proportion of such “outliers” does not appear consistent with the reasonable balance of several objectives developed by the AESO in the Application, as discussed in information response AUC-AESO-011. The AESO submits that its recommendations, including both investment levels and effective date, resulted from the broader contribution policy considerations discussed in the Application rather than from a narrow focus on a subset of projects.

ACCESS also suggests (section 5.2, pages 14-15) that several earlier dates could be used to establish the effective date of the proposed investment levels, including dates reflecting the Commission’s decision on the AESO’s 2010 tariff application, the Commission’s initiation of the contribution policy proceeding, and the Commission’s final direction to the AESO. The AESO submits there is no evidence on the record supporting any of those dates as appropriate. Generally, changes to tariffs, including to investment levels, become effective on a prospective basis. The AESO proposed a retroactive effective date in its Application for practical reasons, as discussed in information response ENPIPE-AESO-001(c). Once the Application was filed, market participants had specific documentation of the proposed investment levels, which would be reasonably expected to influence their project decisions and which could potentially lead to delays and inefficiencies.

It is not reasonable to expect a similar outcome from any of the earlier dates suggested by ACCESS. On those earlier dates, market participants would not have known what investment levels would be recommended in the Application and therefore would have had little evidence on which to delay or reschedule a project. The AESO notes that the proposed investment levels were not final even at the date of the AESO’s last stakeholder presentation on May 17, 2012 (included in information response Attachment AUC-AESO-001, page 44 of PDF document), as the levels were subsequently reduced prior
to the AESO filing the Application on June 20, 2012. The AESO submits that certainty of the
recommended investment levels only existed after the Application was filed, and the Application filing
date therefore represents a realistic date after which concerns related to delays and inefficiencies could
reasonably materialize.

ACCESS states (section 5.3, page 15, lines 23-24) “that the costs these customers are obliged to pay
under the current policy are not fixed.” While ACCESS correctly explains that connection contributions are
adjusted to reflect the final cost of a connection project, investment levels are not similarly adjusted. In
accordance with subsection 7(1) of section 8 of the ISO tariff (provided as Appendix D of the Application):

7(1) The construction contribution will be calculated in accordance with the
construction contribution provisions of the ISO tariff in effect on the date on which the
Commission issues permit and licence for the connection project.

Contrary to ACCESS’s suggestion, investment levels are fixed as of the date on which the Commission
issues permit and licence and are not subject to adjustment based on final project costs.

ACCESS attempts to support its position for making the effective date of the proposed investment levels
about a year earlier by referring to Commission Decision 2010-496 regarding ATCO Gas South’s
application for removal of Carbon related assets from utility service (section 5.3, page 16, footnote 33).
The specific paragraph cited by ACCESS summarizes the argument of the City of Calgary rather than the
findings of the Commission. The Commission’s findings are summarized later in section 4.2 of Decision
2010-496 (pages 21-22, paragraphs 99-102). The Commission first found (paragraph 99, emphasis
added) that “rate adjustments in the form of rate collection riders are required prospectively to reflect the
accounting corrections … necessary to fulfill the direction of the Court of Appeal.” The Commission then
acknowledged (paragraph 101) that it “must choose an option that necessarily creates some degree of
intergenerational inequities” and, in doing so, chose an option “to minimize the cost and complexity of
implementing the Carbon Appeal Decision.” The AESO submits that the findings in Decision 2010-496
are more consistent with the AESO’s proposed effective date as discussed in this reply argument, rather
than with ACCESS’s proposed earlier date.

ACCESS further suggests (section 5.3, page 17, lines 11-12) that “the Commission was of the view that
additional information was required in order to finalize a decision on the contribution policy and
investment levels.” ACCESS later states (section 5.3, page 18, lines 9-11) “that the contribution policy
aspects of the Commission’s order could be considered interim.” In contrast, the UCA notes in its
argument (section 2, page 2, paragraph 8) “that the contribution policy in effect prior to July 1, 2012 was
not an interim tariff, and no party applied to the AUC to request that the AESO’s contribution policy be
changed or made interim prior to the current Application.”

The AESO agrees with the UCA. Decision 2010-606 gives no indication that the Commission’s decision
on investment levels was not final. In fact, the decision clearly indicates the opposite:

The Commission finds that the AESO has considered all relevant contribution policy
principles and has conducted a comprehensive review of the 2010 POD Cost Function
including evaluation of cost categories in the determination of maximum investment
levels. The Commission is not persuaded that further adjustments to the maximum
investment levels are necessary at this time as suggested by the DUC; however,
maximum investment levels may be considered in the contribution policy module.
[Decision 2010-606, section 10.4.2, page 81, paragraph 443, emphasis added]

The Commission contemplated future changes as an outcome of the contribution policy module that
resulted in the AESO’s Application, but the findings with respect to investment levels were not to be
subject to further adjustment in the context of the AESO 2010 tariff application.
ACCESS similarly suggests (section 5.3, page 18, line 1) that the cost function multiplier received “interim approval” from the Commission in Decision 2010-606. Yet in that decision the Commission states:

\[\text{The Commission considers that calculation of the maximum investment levels using a multiplier of 1.06 provides for a distribution of investment coverage for connection projects that is similar to that approved in the AESO 2007 GTA. The Commission finds that maintaining similar coverage to historical levels is reasonable and it is not persuaded that further increases to the investment level are required at this time as suggested by the DUC. The Commission approves the AESO’s proposal to reduce the multiplier from 1.15 to 1.06 as filed, however the multiplier may be considered in the contribution policy module. [Decision 2010-606, section 10.4.2.1, page 82, paragraph 448, emphasis added]}\]

Paragraph 448 from Decision 2010-606 gives no indication that approval of the multiplier was interim in nature, and in fact clearly states further increases are not required and the multiplier was approved as filed. ACCESS’s interpretation of Decision 2010-606 as providing interim approval is without basis.

ACCESS again reverts to the 17 projects discussed earlier to state (section 5.3, page 19, lines 1-3) that “uncertainty and volatility cannot be created by extending these 17 customers a more equitable and fair investment level.” As the AESO explained in the Application (section 11.1, page 62, paragraph 295), it is the retroactive application of changes that can create problems. The Commission issued permit and licence for the connection projects based on its understanding of those projects, including their costs, at that time. Similarly, the market participant committed to proceed with a connection project shortly after permit and licence was issued. The market participant may have made a different decision had a future change to contribution policy been expected to apply retroactively. The AESO acknowledges that the affected market participants are unlikely to object to the decreases in contributions for the 17 projects discussed by ACCESS. However, the AESO assumes that the precedent established by such a retroactive decision would equally apply if investment would be reduced, which the AESO expects would be strongly opposed by ACCESS and any affected market participants. The AESO submits that uncertainty and volatility are created when it becomes probable that changes which have neither been documented nor applied for will become retroactively effective as of some indeterminate prior date.

ACCESS states (section 5.3, page 19, lines 20-21) that “Section 9 of the tariff allows for the AESO to make an adjustment to Construction Contributions after the fact, if the circumstances warrant it.” Subsection 2 of section 9 of the ISO tariff does allow for adjustments to construction contributions following certain events, but those events do not include retroactively applying an investment level change. In fact, subsection 4(1) of section 9 of the ISO tariff specifically states that “the adjustment will be determined in accordance with the construction contribution provisions described in the ISO tariff as applied to the transmission facilities when constructed.” As previously noted, subsection 7(1) of section 8 of the ISO tariff establishes that the ISO tariff that applied to each of the 17 projects discussed by ACCESS is “the ISO tariff in effect on the date on which the Commission issues permit and licence for the connection project.” The AESO simply does not have the authority to arbitrarily decide which contribution policy provisions apply to a connection project.

ACCESS states (section 5.3, page 20, lines 3-4), “Applying the proposed contribution policy now to projects receiving P&L on or after July 12, 2011 does not provide an inappropriate price signal.” But as the AESO explained in the Application (section 3.1, page 14, paragraph 50), to provide effective price signals “[t]he contribution policy must send price signals that influence market participants ….” Market participants cannot be expected to be influenced by contribution policy changes which have neither been documented nor applied for. Making such changes retroactively effective prior to the date of application therefore cannot, by definition, provide an effective price signal and therefore does not align with that primary contribution policy principle.
In conclusion, the AESO submits that the requested retroactive effective date of July 1, 2012, supports decisions made by connecting market participants after the Application was filed while avoiding the potential for delays and inefficiencies that may have occurred if a later effective date had been proposed. The AESO maintains that retroactivity to shortly after the Application was filed is a reasonable approach, as the Application provided clear documentation to market participants who could then make project-related decisions based on the information included in the Application. The AESO submits that an earlier effective date, including the July 12, 2011 date proposed by ACCESS, could lead to indecision and speculation by market participants and create the delays and inefficiencies the AESO is seeking to avoid.

For all these reasons, the AESO submits that ACCESS’s proposal to advance the effective date of the contribution policy change to July 12, 2011 should be rejected.

The AESO also wishes to address one additional statement made by ACCESS. In its argument, ACCESS states (section 2.2, page 4, lines 25-26), “As discussed by the AUC in its IR’s the AESO has sought a tradeoff between setting a price signal and pursuing intergenerational equity.” The AESO clarified in information response AUC-AESO-004(d) that, rather than a trade-off between principles, it attempted “to simultaneously satisfy the three primary contribution policy principles while satisfying as many of the secondary principles as possible. The AESO discussed in section 8.3 of the Application (pages 52-54, paragraphs 246-255) how the proposed 70% investment coverage provides effective price signals, maintains intergenerational equity, and is based on cost causation.” The AESO does not consider that it traded off any one primary principle against the others in its Application.
3 Reply to AltaLink

31 Like other participants in this proceeding, AltaLink supports the AESO’s Application. (section 1, page 1, paragraph 1)

32 However, the AESO wishes to address one matter raised by AltaLink in its argument. AltaLink states (section 3.2, page 3, paragraph 21), “AltaLink further supports the AESO’s position that the Primary Principles should be weighed equally and not ranked.” AltaLink then concludes its argument by requesting (section 4, page 7, paragraph 36) a “finding that with respect to setting investment levels the Primary Principles must be weighed equally and not ranked.”

33 It is not the AESO’s position that the primary principles should be weighed equally. The AESO’s position is summarized in information response AUC-AESO-004(b):

   *The AESO has no basis for stating that any of the primary principles is more important than the others. The AESO considers that discussion and debate of contribution policies in the context of the principles provides useful insight into whether a policy "generally represents a reasonable balance of objectives" (Application, section 3, page 13, paragraph 46), but cannot and should not be reduced to an arithmetical scoring against weighted principles.*

34 The AESO submits that this position remains appropriate, and that the primary contribution policy principles should be neither specifically weighted nor ranked, either equally or unequally.
4 Reply to the UCA

The UCA “recommends that the Alberta Utilities Commission (AUC) approve all aspects of the Application with one change to the AESO’s proposed implementation process ….” (section 1, page 1, paragraph 2)
The UCA’s proposed change is “that the updated investment levels be based on the POD cost function approved for rate design purposes in the comprehensive tariff application to be filed in March 2013, at which time the updated investment levels be applied retroactive to July 1, 2012.” (section 2, page 4, paragraph 15)

The AESO submits this change is inappropriate due to the extended period of uncertainty it will bring to the investment levels in the ISO tariff.

The AESO explained in its Application (section 11.1, page 62, paragraph 295) that market participants make project decisions based on the contribution policies that apply to their projects at the time those decisions are made. Delaying the AESO’s requested approval will introduce the uncertainty that investment levels could be lower or, potentially, higher than the proposed levels for certain projects. Avoiding such uncertainty and the associated potential for delays and inefficiencies was the reason for the AESO’s request for a retroactive effective date in the Application.

Based on reply argument in this proceeding being filed on October 1, 2012, the AESO anticipates a decision on the Application near the end of 2012. For the AESO’s next comprehensive tariff application to be filed in March 2013, the AESO does not expect a final decision until early or mid-2014. The UCA’s proposed change would therefore introduce more than a year’s delay before the investment levels are finally known for projects receiving permit and licence on or after July 1, 2012. The extended period of uncertainty created by such a delay is, in the AESO’s view, unwarranted.

The AESO agrees with the UCA’s position (section 2, page 3, paragraph 13) that “the same POD cost function should continue to be used to establish both the investment levels and the DTS rates.” However, as the AESO explained in information response UCA-AESO-001(c), in reality the construction contribution and rates will be based on different cost functions for much of the life of a system access service, as the Rate DTS charges for a service are subject to changes reflecting revisions and updates to the cost function while the contribution paid when a service is constructed is not subject to such changes.

In any event, the AESO considers the existing and proposed cost functions to be more similar than different, as illustrated in Figure 10-2 (section 10.3, page 61) of the Application. Both cost functions are power curves with zero-intercepts, declining slopes, and similar shapes. Their differences are much less than the differences between the cost function currently used for the point of delivery charge in Rate DTS and those used for investment levels prior to 2006 or from January 2006 to July 2008. The AESO submits that the UCA’s concern about the use of different cost functions from July 2012 to early or mid-2014 (when the AESO expects its next tariff to be approved) is therefore excessive.

As stated in information response UCA-AESO-001(c), the AESO considers approval of the updated cost function for the establishment of investment levels would:

- ensure the contribution policy is based on the best information currently available; and
- incorporate upgrade projects into the cost function, which the AESO considers to result in a cost function that better reflects cost causation for all connection projects.

For all these reasons, the AESO submits that the UCA’s proposal to delay approval of the updated investment levels should be rejected.
5 Conclusion

As first noted in section 1 of this argument, all parties in this proceeding were supportive of the Application, with the exception of concerns expressed by ACCESS and the UCA related to the AESO’s proposed implementation of the recommended investment levels.

The AESO has addressed the changes proposed by ACCESS and the UCA in the preceding sections of this argument. The AESO submits that both changes should be rejected for the reasons discussed in those sections.

The AESO further submits that no substantive matter has been raised in argument or in information requests that requires correction or revision to the proposals included in the AESO’s 2012 Construction Contribution Policy Application.

Having consideration for all the foregoing, the AESO reiterates, as earlier submitted in argument, that its Application should be approved as filed, and that the relief requested in section 1.4 (pages 7-8) of the Application should be granted in full.