August 29, 2013

Salma Karim
Application Officer
Alberta Utilities Commission
Fifth Avenue Place, Fourth Floor
425 – 1st Street SW
Calgary, Alberta T2P 3L8

Dear Salma:

Re: AESO Request for Approval to Commence a Negotiated Settlement Process
Application No. 1609765 and Proceeding ID No. 2718

Pursuant to Rule 018 of the Alberta Utilities Commission (Commission), the Independent System Operator, operating as the Alberta Electric System Operator (AESO), requests approval to initiate a negotiated settlement process concerning the Alberta Transmission System Cost Causation Study (2014-2016 Cost Causation Study) filed as part of the AESO’s 2014 ISO Tariff Application in the above-noted proceeding. The negotiated settlement process is intended to facilitate the finalization of the 2014-2016 Cost Causation Study for use in the development of the rates in the AESO’s tariff.

Background

In Decision 2010-606 (section 6.3.1, page 26, paragraph 128) on the AESO’s 2010 ISO Tariff Application, the Commission directed the AESO “to file an updated Transmission Cost Causation Study along with its next major tariff application.” For its 2014 ISO Tariff Application, the AESO accordingly:

- consulted with stakeholders,
- contracted London Economics International (LEI) to prepare an updated cost causation study, and
- filed the resulting 2014-2016 Cost Causation Study and accompanying Transmission Cost Causation Workbook as Appendices E and F of the AESO’s 2014 ISO Tariff Application.

The AESO and LEI held a technical meeting on the 2014-2016 Cost Causation Study on August 19, 2013 which was attended by about 15 participants in the proceeding. Prior to the technical meeting, some participants had raised with the AESO the potential for a negotiated settlement on the 2014-2016 Cost Causation Study, and the AESO discussed the suggestion near the end of the meeting. No participant in attendance objected to considering a negotiated settlement process, although several noted they would need further time to examine and test the 2014-2016 Cost Causation Study before taking a formal position on it.

The AESO filed a revision of the Transmission Cost Causation Workbook on August 28, 2013, incorporating four refinements identified during the course of responding to questions asked during the technical meeting. The impact of those refinements was small, and the AESO did not consider that they warranted changes to the text of the 2014-2016 Cost Causation Study or to the rate calculations in the application itself at this time.
Issues to be Resolved

In the AESO’s view, there appear to be limited issues raised to date with respect to the 2014-2016 Cost Causation Study. However, the AESO recognizes that participants in the proceeding would like the opportunity to further test the study. The AESO supports the examination of the study through the information request process scheduled in the Commission’s letter dated August 13, 2013, prior to meeting with participants to discuss any potential negotiated settlement.

Subject to new concerns being identified through the information request process, the AESO believes that the following issues may be resolved through a negotiated settlement:

(a) the functionalization of transmission capital costs into bulk system, regional system, and point of delivery functions;

(b) the functionalization of transmission operating and maintenance costs into similar functions; and

(c) the classification of bulk system and regional system costs into demand-related and energy-related components.

These three issues constitute the primary content of the 2014-2016 Cost Causation Study and are discussed in section 5.2 (pages 29-31) of the AESO’s application. The AESO expects that a negotiated settlement process could result in agreement on the functionalization and classification presented in Table 5-2R, replicated below from the AESO’s answers to technical meeting questions, with or without further revision.

<table>
<thead>
<tr>
<th>Function</th>
<th>Total</th>
<th>Classification</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Demand</td>
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<tr>
<td><strong>2014 ISO Tariff</strong></td>
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<td>Bulk System</td>
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<td>Regional System</td>
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<tr>
<td>Point of Delivery</td>
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<td>to be determined from POD cost function</td>
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<td>56.1%</td>
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<td>Regional System</td>
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</tr>
<tr>
<td>Point of Delivery</td>
<td>17.0%</td>
<td>to be determined from POD cost function</td>
</tr>
</tbody>
</table>

Note: Totals may not add due to rounding.

The AESO at this time does not consider that the point of delivery cost function, rate design matters, or terms and conditions matters should be included in the negotiated settlement process.
Negotiated Settlement Process and Timelines

As noted above, the AESO supports the examination of the 2014-2016 Cost Causation Study through the information request process as currently scheduled. Nevertheless, the AESO believes it is appropriate to request approval to initiate a negotiated settlement process at this time to avoid unnecessary delay to the progress of the proceeding.

Once approval to initiate a process is received, the AESO will provide all interested parties and registered participants with notice by email. Interested parties will have the opportunity to participate in the negotiated settlement process in order to have their respective interests properly addressed. The AESO considers that it would be beneficial to also have Commission staff involved in the negotiated settlement process as contemplated in section 5 of Rule 018.

The AESO will inform the Commission of the status of the negotiated settlement process no later than September 30, 2013, and will indicate then if and when a formal application may be expected requesting approval of the 2014-2016 Cost Causation Study.

If you require additional information concerning this request, please contact John Martin at 403-539-2467 in Calgary or at john.martin@aes.ca.

Sincerely,

Heidi Kirrmaier
Vice-President, Regulatory

Cc:  John Martin, Director, Tariff Applications, AESO
     Lee Ann Kerr, Manager, Tariff Applications, AESO
     Raj Sharma, Senior Tariff Analyst, AESO
     Nicole Weigel, Regulatory Coordinator, AESO