

Reference: AESO 2006 GTA (Application 1363012)

Title: Origins of Operations and Maintenance Charge

Preamble: The AESO's original proposal for a prepaid operations and maintenance charge was provided in the AESO's 2006 tariff application (Alberta Energy and Utilities Board (EUB or Board) Application # 1363012).

Request:

- (a) Please provide application materials and other filed evidence from the AESO's 2006 GTA proceeding (EUB Application 1363012) which relates to the prepaid operations and maintenance (O&M) charge proposed by the AESO in Application 1363012.
- (b) In light of the fact that the prepaid O&M charge proposal described in the AESO's 2006 GTA was modified by the EUB in Decision 2005-096, please describe how the AESO believes it met the onus it faced in the 2007 GTA proceeding to persuade the EUB that the Board's findings in Decision 2005-096 in respect of the O&M charge were erroneous.

Response:

- (a) Attachment AUC.AESO-001 (a)-A includes all application materials and other evidence filed by the AESO during its 2006 GTA proceeding which relates to the prepaid O&M charge proposed by the AESO in its application:
 - (i) pages 20-21 of section 6 of the AESO's 2006 General Tariff Application dated January 31, 2005;
 - (ii) responses by the AESO to the following information requests dated February 25, 2005:
 - ALPAC.AESO-003 (a-h),
 - BR.AESO-041(a-b),
 - ENCANA.AESO-068 (a-c),
 - EPCOR.AESO-008 (a-b),
 - FIRM.AESO-258, and
 - TCE.AESO-244 (a-c);
 - (iii) oral evidence of the AESO in transcript pages 282-284 of the hearing on April 11, 2005;
 - (iv) section 5.1.6.5 (pages 51-53) of the AESO's Argument dated May 16, 2005; and
 - (v) section 5.1.6.5 (page 37) of the AESO's Reply Argument dated May 30, 2005.

For completeness, Attachment AUC.AESO-001 (a)-B includes evidence filed by other parties during the 2006 GTA proceeding which also relates to the prepaid O&M charge:

- (vi) pages 1, 3-5, and 18 of Alberta Pacific Forest Industries' Argument dated May 16, 2005;
 - (vii) section 5.1.6.5 (pages 101-103) of the FIRM Customers' Argument dated May 16, 2005;
 - (viii) section 5.1.6.5 (page 46) of TransCanada Energy's Argument dated May 16, 2005;
 - (ix) section 5.1.6.5 (page 4) of Alberta Pacific Forest Industries' Reply Argument dated May 30, 2005; and
 - (x) section 5.1.6.5 (pages 21-22) of the FIRM Customers' Reply Argument dated May 30, 2005.
- (b) As explained in section 3 of the AESO's 2007 General Tariff Application, the AESO conducted extensive stakeholder consultation in developing its 2007 tariff proposals. In particular, the development of the terms and conditions proposals began in August 2005 and continued until October 2006, and included the preparation of the *2006 Customer Contribution Study*. Throughout this process the AESO assessed issues, explored alternatives, and developed underlying rationale for various aspects of the terms and conditions, including the contribution policy.

The O&M charge approved in Decision 2005-096 was included in the assessment and exploration of issues during development of the AESO's 2007 tariff application. As discussed in section 6.5.2 (pages 13-15 of section 6) of the 2007 tariff application (provided on January 8, 2009, with the AESO's evidence in this proceeding), the AESO examined the relevant considerations mentioned in Decision 2005-096 on the AESO's 2006 GTA and concluded that, in practice, the benefits expected from the O&M charge would be very limited.

The AESO's exploration of the issue also revealed that the O&M charge would likely result in the need for new procedures and processes by TFOs, reductions to harmonization efforts between the AESO and DFOs, intergenerational equity concerns, and additional tariff complexity. These various issues and impacts concerning the O&M charge approved in Decision 2005-096, which had not been debated during the AESO's 2006 GTA proceeding, were summarized by the AESO in its application.

The AESO also discussed the issue with stakeholders in consultation on the development of its 2007 terms and conditions. Stakeholders generally concurred with the AESO's findings on the O&M charge. No party suggested the issue did not warrant review in the AESO's 2007 GTA, in light of the foregoing changed circumstances and conclusions.

The AESO concluded that the limited benefits expected from the O&M charge, the additional disadvantages revealed during the development of its 2007 tariff application, and the general support of other parties were persuasive and met the onus faced by the AESO in suggesting the findings in Decision 2006-096 should be reexamined.

Reference: AESO 2006 GTA (Application 1363012), Section 6, p. 21

Title: Derivation of Charge

Preamble: The AESO's 2006 GTA states the following at p. 21:

“For this application, the AESO has proposed to charge prepaid operations and maintenance at 12% of capital cost. This charge is not based on a detailed analysis by the AESO, but is based on the minimum such charge used by other utilities in Alberta. A preliminary review by the AESO indicates this is the minimum reasonable level, and additional analysis for each TFO may result in higher prepaid operations and maintenance charges in future rate applications.”

Request:

- (a) Please provide the AESO's rationale for considering that a charge based on a percentage of an interconnection project's capital cost represents a reasonable estimator of future operations and maintenance costs arising from an interconnection project?
- (b) Please confirm that:
- the 12% level of the charge proposed in the AESO's 2006 GTA was adopted because it was believed to be the minimum reasonable level for such a charge (i.e. that the AESO believed that incremental operations and maintenance costs caused arising from interconnection projects would typically be higher); and
 - the 12% charge was not designed to precisely match or offset the expected future amount of operation and maintenance costs arising from an interconnection project.

If the above cannot be confirmed, please explain.

- (c) Recognizing that the prepaid O&M charge proposed by the AESO in the 2006 GTA proceeding was intended to be applied only on the optional portion of interconnection project capital costs for DTS customers, please confirm whether the AESO considers that a 12% charge applied to an interconnection project's total (i.e. standard facility plus optional facility) capital costs represents the minimum amount of the cost of future operations and maintenance costs caused by an interconnection project. If this cannot be confirmed, please explain.
- (d) To the extent that the 12% charge adopted by the EUB in Decision 2005-096 was described in Application 1363012 as the minimum amount for such a charge (i.e. that the charge would not cover anticipated future O&M costs expected to arise from the majority of interconnection projects), please comment on the proposition that use of a minimal

rather than average target level for the charge has the effect of partially mitigating potential “double-charging” (i.e. through the inclusion of O&M costs both as part of the customer contribution and within DTS rates) that may be caused by applying the 12% charge on AESO standard facility related interconnection project capital costs.

- (e) Please confirm that if the maximum investment allowance calculated for a DTS interconnection project is greater than the combined amount of:
- the interconnection project’s standard facility related capital costs; and
 - the portion of the 12% O&M charge based on standard facility related capital costs

the AESO does not consider the fact that O&M costs arising from the interconnection project are included in DTS rates will give rise to a double-charge to the interconnecting DTS customer. If this cannot be confirmed, please explain.

Response:

- (a) A frequent methodology in cost of service analysis is to functionalize, allocate, and classify capital costs, and then treat operation and maintenance costs associated with that capital in the same manner. This approach was followed by the AESO as part of its implementation of the results from the *Alberta Transmission System Wires Only Cost Causation Study* in its 2006 GTA, and was essentially approved in Decision 2005-096. Since O&M costs are assumed to follow capital costs in the base DTS rate, it seemed reasonable to assess an O&M charge that varied directly with capital costs in the same manner.

As well, in economic analysis developed by the AESO, such as that underlying the Primary Service Credit analysis included in the AESO’s 2006 GTA, O&M costs were estimated to vary directly with capital assets at 2% of capital costs.

Finally, the prepaid O&M charge assessed by FortisAlberta is approved as a percentage of capital costs in FortisAlberta’s Customer Terms and Conditions of Distribution Access Service.

For all these reasons, the AESO considered that a charge based on a percentage of an interconnection project’s capital costs represents a reasonable estimate of O&M costs.

The AESO notes, however, that such a percentage represents an average over the life of an interconnection and will likely vary significantly from year to year, based on equipment maintenance cycles, equipment age, environmental conditions, equipment loading, and other factors. The AESO further notes that Decision 2005-096 directed, and Decision 2007-106 reiterated, that the AESO conduct further analysis of the appropriate amount of the O&M charge and investigate the relationship between incremental TFO O&M and capital costs.

- (b) Confirmed. For additional information, please refer to the following material included in Attachment AUC.AESO-001 (a)-A:
- page 21 of section 6 of the AESO’s 2006 General Tariff Application,
 - Information Response ALPAC.AESO-003 in the AESO’s 2006 GTA proceeding, and

- oral evidence of the AESO in transcript pages 282-283 of the 2006 GTA hearing on April 11, 2005.
- (c) Confirmed. The information relied on by the AESO in proposing a 12% level for the O&M charge did not differentiate between O&M costs attributable to standard facilities and those attributable to facilities in excess of standard.
- (d) In general, reducing the O&M charge will mitigate, but not eliminate, the effects of the charge discussed in section 2 of the AESO's evidence filed on January 8, 2009 in this review and variance proceeding. This would include reducing, but not eliminating, the result that DTS customers who paid contributions in 2006 and later years (that is, after the addition of the O&M charge) pay both the O&M costs recovered through the DTS rate and the O&M costs recovered through contributions.

However, mitigating the effects of the O&M charge by using a minimal or nominal level (rather than a higher level that represents average or typical O&M costs associated with an interconnection) seems counterintuitive to the considerations highlighted in Decision 2005-096 (pages 66 and 67), specifically:

- that the O&M charge “send appropriate economic siting and facility development signals”, and
- that O&M costs associated with standard facilities should not be presumed to “fall below the level permitted under the maximum investment allowance.”

The AESO is unable to suggest a rationale for concluding that an average or typical O&M charge should be considered inappropriate but that some lower level of charge is appropriate, in the context of the considerations in Decision 2005-096 and the effects discussed in the AESO's evidence.

As well, Information Response ALPAC.AESO-003 in the AESO's 2006 GTA proceeding (included in Attachment AUC.AESO-001 (a)-A) indicated a potentially wide range of possible levels for the O&M charge. It is not clear to the AESO how an appropriately low level for the O&M charge could be developed and sustained in future tariff applications, given the limitations in data to study TFO O&M costs discussed in Information Response AUC.AESO-006 in this review and variance proceeding.

- (e) Confirmed. As discussed in section 2 of the AESO's evidence in this review and variance proceeding, a DTS customer who connected to the transmission system prior to January 1, 2006 (prior to the addition of the O&M charge) pays the same DTS rate as one who connected to the transmission system in 2006 or later (after the addition of the O&M charge). If neither customer paid a customer contribution, then each customer would pay only the O&M costs recovered through the DTS rate.

Reference: January 8, 2009 Evidence, Section 2, p. 2

Title: Intergenerational Equity

Preamble: Bullet 2 of the “Effects of the 12% Prepaid O&M Charge” section of the AESO’s January 8, 2009 Evidence states:

“DTS customers who paid contributions prior to January 1, 2006 (that is, prior to the addition of the O&M charge) would pay only the O&M costs recovered through the DTS rate. DTS customers who paid contributions in 2006 and later years (that is, after the addition of the O&M charge) would pay both the O&M costs recovered through the DTS rate and the O&M costs recovered through contributions. The DTS rate is the same for both groups of customers, resulting in intergenerational inequity between those groups.”

Request:

Does the AESO agree that to the extent that an O&M charge based on the standard facility related costs of an interconnection project is made known to an interconnecting DTS customer prior to making a definitive investment decision, the goal of sending cost causation signals should be considered to be of greater importance than potential intergenerational equity considerations? If the AESO does not agree, please explain.

Response:

The AESO agrees that sending cost causation signals is of greater importance. The signals given, however, must reasonably represent the costs being caused.

The AESO recognizes that the cost causation signal provided to a DTS customer includes both:

- (i) the customer contribution related to the customer’s interconnection, if any, and
- (ii) monthly charges paid over time in accordance with the DTS rate for the service.

As discussed in section 2 of the AESO’s evidence in this review and variance proceeding, DTS customers who paid contributions in 2006 and later years would pay both the O&M costs recovered through contributions and the O&M costs recovered through the DTS rate. In effect, those customers would receive an inappropriately inflated cost signal that represents more than the costs being caused by their services.

DTS customers who paid contributions prior to January 1, 2006, would not receive such an inflated signal.

Thus, the AESO’s primary concern is the inappropriate inflation of the cost causation signal for customers who paid contributions in 2006 and later years. The secondary relevant concern is that this also results in intergenerational inequity.

Reference: Decision 2007-106, Section 8.1.2.2, pp. 96-98

Title: Maximum Investment Function Multiplier Analysis

Preamble: In section 8.1.2.2 of Decision 2007-106, the Board approved the maximum investment function for interconnection projects. The approved investment function was derived by multiplying the POD cost function approved by the Board in section 5.7.7 of Decision 2007-106 by a 1.15 multiplier that approximated a multiplier of 1.15149 proposed by the AESO in its 2007 GTA.

In consideration that:

- the 1.15149 multiplier proposed by the AESO may have assumed that the Board would also approve the treatment of the O&M charge proposed by the AESO in its 2007 GTA; and
- the 48 project cost data points considered by the Board in its assessment of the AESO's proposed 1.15149 multiplier (described in section 8.1.2.2 of Decision 2007-106) did not reflect the 12% O&M charge;

Commission staff wish to understand how, if at all, the 1.15 multiplier approved by the Board in Decision 2007-106 should be adjusted to take into account the effect of the O&M charge on interconnecting customers.

Request:

- (a) Using the 48 point data set described in section 8.1.2.2 of Decision 2007-106 and the POD cost function approved in section 5.7.7 of Decision 2007-106, please replicate the multiplier analysis described in section 8.1.2.2 of Decision 2007-106. For the purpose of this analysis, please increase the 48 project cost data points by 12% to reflect the effect of the O&M charge as approved in Decision 2007-106 on interconnection project costs.
- (b) In consideration of the analysis described in part (a) above, please recommend an appropriate multiplier of the POD cost function approved in section 5.7.7 of Decision 2007-106. For the purpose of this response, please assume that the O&M charge set out in Article 9.4 of the approved AESO tariff T&Cs remains in place.
- (c) Please provide a full justification for the multiplier recommended in the response to part (b) above. This response should take into account the Board's findings in regard to the application of the "80/20" rule as described in section 8.1.2.1 of Decision and in particular the following contribution policy design considerations set out at p. 94 of Decision 2007-106:

- the underlying purpose of the contribution policy is to send economic signals to AESO customers when considering alternatives for siting their interconnecting loads;
- an excessive investment allowance could provide incentives for customers to pursue higher standards of interconnection facilities than required and justify doing so on the basis that the cost of the higher standard facilities would not exceed the permitted investment allowance;
- because the incremental revenue approach may place undue upward pressure on rates, maximum investment allowances should be at a level below a level representing the incremental revenues expected to arise from the interconnection of a new customer;
- investment allowances should be set with regard to the anticipated costs of establishing an interconnection reflecting acceptable standards of functionality and service established by the AESO;
- interconnection facility service characteristics and standards of functionality may change over time.

Response:

- (a) The POD cost function approved in section 5.7.7 (page 55) of Decision 2007-106 was:

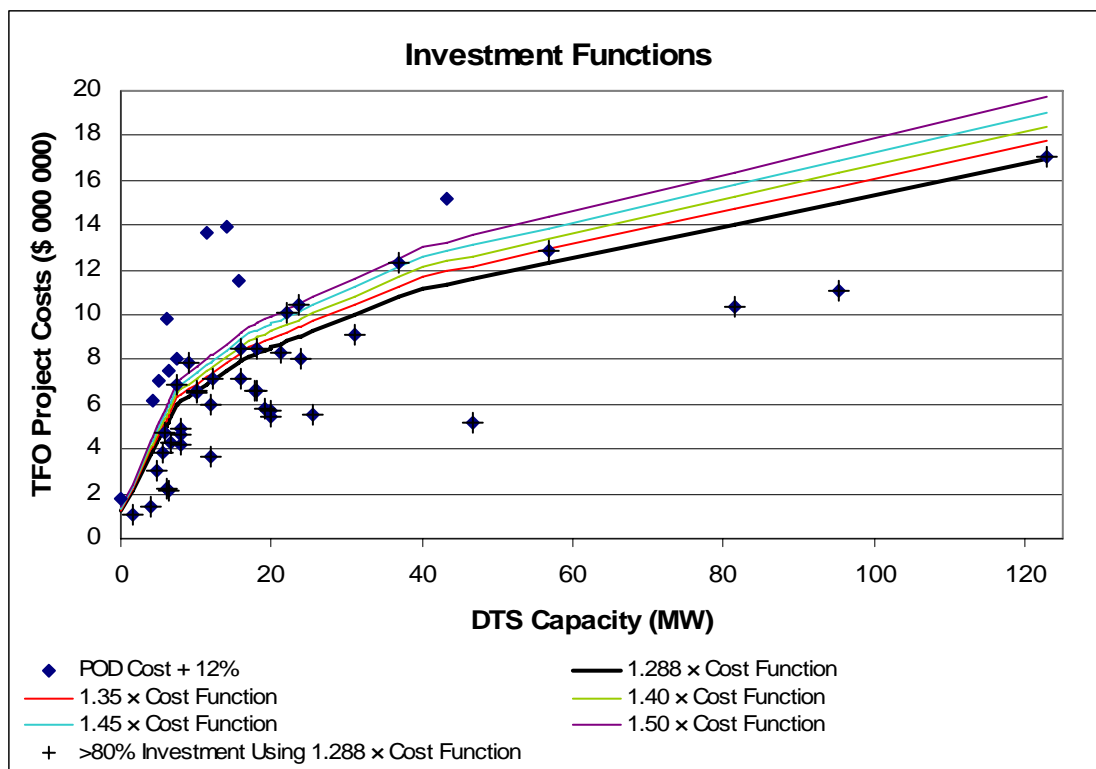
$$\begin{aligned} \text{Cost} = & \$0.894 \text{ million} + \\ & \$0.503 \text{ million/MW for the first 7.5 MW} + \\ & \$0.174 \text{ million/MW for the next 9.5 MW} + \\ & \$0.102 \text{ million/MW for the next 23 MW} + \\ & \$0.054 \text{ million/MW for all MW above 40 MW} \end{aligned}$$

The following columns are included in attached Schedule BR.AESO-004 (a)-A to replicate the multiplier analysis described in section 8.1.2.2 (pages 96-98) of Decision 2007-106:

- (i) Columns A and B contain the original capacities and costs for the 48 point data set used in the original multiplier analysis.
- (ii) Column C increases the costs for the data points by 12% to reflect the effect of the O&M charge.
- (iii) Column D calculates the POD costs using the approved POD cost function provided above.
- (iv) Column E increases the calculated POD costs by the multiplier of 1.288 (indicated at the top of the column) to provide the maximum investment available.
- (v) Column F provides the actual investment determined as the lesser of the cost plus 12% O&M from Column C or the maximum investment from Column E.
- (vi) Column G calculates, in percent, how much of the increased data point cost in Column C is covered by the actual investment in Column F.

- (vii) Column H then indicates into which of the cost coverage groups discussed in section 8.1.2.2 the data point falls.
- (viii) Finally, below the data in Schedule BR.AESO-004 (a)-A in columns E, F, and G, a summary table provides the frequency of data points in the cost coverage groups discussed section 8.1.2.2 of Decision 2007-106.

Section 8.1.2.2 of Decision 2007-106 began with an evaluation of cost functions in 0.05 multiplier increments until such time as 80% of the 48 point dataset projects would receive full investment. A similar analysis is provided in attached Schedule AUC.AESO-004 (a)-B, with the costs for the data points increased by 12% to reflect the effect of the O&M charge. Almost 80% of the 48 point TFO project cost data points were fully covered by investment using a multiplier of 1.50 applied to the approved POD cost function. A graph of the investment function based on this data is shown below.



The AESO further assessed the level of multiplier required by increasing the original multiplier by 12%, to $1.15 \times 112\% = 1.288$. A multiplier of 1.288 provides cost coverage equivalent to that discussed on page 97 of Decision 2007-106. Specifically, a multiplier of 1.288 results in 27 data points receiving full investment, six data points receiving at least 90% but less than 100% investment, and another five data points receiving at least 80% but less than 90% investment. As such, 38 out of 48 data points, or 79.2% of the data points, receive at least 80% investment and the majority of these points receive full investment.

The graph above shows the data points that have at least 80% of their costs covered by investment using the approved POD cost function and a multiplier of 1.288.

The multiplier of 1.288 provides similar results if a 30-point “greenfield” subset of the 48-point dataset is used,

- (b) Based on the analysis in part (a) above, the AESO considers a multiplier of 1.288 would satisfy the criteria discussed in section 8.1.2.2 of Decision 2007-106, assuming the O&M charge is Article 9.4 of the approved AESO terms and conditions remains in place.
- (c) In part (b) above, the AESO considered a multiplier of 1.288 would satisfy the same criteria used to assess the original multiplier in Decision 2007-106. In particular, with a multiplier of 1.288 about 80% of projects have at least 80% of their costs covered through investment and the majority (56%) of those projects have their costs fully covered by investment. A multiplier of 1.288 therefore accounts for the “80/20” rule described in section 8.1.2.1 of Decision 2007-106, as discussed in more detail in part (a) above. The AESO notes, however, that Decision 2007-106 clearly stated on page 98 that “an 80/20 rule is not to be relied on in future when amending the maximum investment policy.”

The AESO provides the following further comments on the contribution policy design considerations set out on page 94 of Decision 2007-106

- (i) **Sending of economic signals** — As discussed in Information Response AUC.AESO-003, the economic signal provided to a DTS customer includes both the customer contribution and the monthly charges paid under the DTS rate. The AESO considers that customer contributions based on an investment level determined using a multiplier of 1.288 provides a reasonable economic signal. The same projects would pay contributions and receive the related economic signals from a multiplier of 1.288 when project costs include 12% O&M, as from a multiplier of 1.15 when project costs exclude 12% O&M. The AESO notes that in the former case the signals would be inflated as discussed in Information Response AUC.AESO-003.
- (ii) **Removal of incentives to pursue facilities beyond those required** — The AESO first notes that standard facilities to connect a customer are determined by the AESO to be the least-cost facilities which meet good transmission practice including applicable reliability, protection, and operating criteria and standards. Under Article 9 of the AESO’s terms and conditions of service, a customer does not receive more in investment than the cost of standard facilities, which therefore limits the opportunity for a customer to pursue higher standards of facilities than required simply because additional investment is available. Furthermore, as noted above, with a multiplier of 1.288 slightly over half (56%) of projects are expected to have their costs for standard facilities fully covered by investment. The other 44% of projects will all require a customer contribution of some amount, and any additional facilities beyond the maximum investment level will be fully paid for by the customer. The AESO considers a multiplier of 1.288 therefore effectively limits the incentive for customers to pursue higher standards of facilities.
- (iii) **Avoidance of undue upward pressure on rates** — The AESO is unable to directly assess the incremental revenues expected from the interconnection of a new customer due to the nature of TFO cost recovery through the AESO’s DTS rate. Specifically, the interconnection of a customer gives rise to TFO costs,

those costs are included in the TFO's revenue requirement charged to the AESO through the TFO's tariff, the TFO's tariff charges are aggregated with corresponding charges from other TFOs, and all TFO charges plus the AESO's own costs are recovered from customers through the interconnection charge designed on the basis of a wires cost causation study. Any attempt to trace through this process the incremental revenues expected from a new customer would likely not provide meaningful results.

However, the AESO notes that if interconnection project costs escalate over time at approximately the same rate as other TFO capital costs, and if the maximum investment level results in approximately the same proportion of interconnection project costs being covered by investment, then the maximum investment allowances should not place undue upward pressure on rates. The AESO notes that Table 6.1.1 on pages 8-9 of section 6 of the AESO's 2006 General Tariff Application showed that the contribution policy in place prior to 2006 would have provided \$251.7 million of investment towards 60 projects totaling \$263.4 million, thereby covering about 96% of the total cost of those projects. Schedule BR.AESO-004 (a)-A provided in part (a) above shows that a multiplier of 1.288 would provide \$307.1 million of investment towards 48 projects totaling \$350.6 million (including 12% O&M), covering about 88% of the total costs of those projects. (The AESO does not have similar data available to assess the coverage of the investment level in place under the AESO's 2006 tariff.) Based on this simple comparison, the AESO concludes that a multiplier of 1.288 would not place any undue upward pressure on rates, compared to the maximum investment allowances in place prior to 2006.

- (iv) **Anticipated costs of an interconnection** — As the investment allowance discussed in part (a) above was based on the cost of standard facilities for actual interconnection projects, the AESO considers that the resulting 1.288 multiplier appropriately considers the costs of interconnection.
- (v) **Changes to service characteristics and standards of functionality** — As the investment allowance discussed in part (a) above was based on recent projects which reflect current service characteristics and standards of functionality, the AESO considers that the resulting 1.288 multiplier appropriately considers such factors. As well, as additional interconnections are added to the project data set, the impact of changing service characteristics and standards of functionality will be gradually reflected in the resulting investment levels over time.

Reference: AESO January 8, 2009 Evidence, Section 2, p. 2
AESO January 8, 2009 Evidence, Section 3, p. 4
Decision 2005-096,
Decision 2007-106, Section 9.2

Title: Harmonization with DFO Contribution Policies

Preamble: Whereas certain Decision 2005-096 directions mandated the AESO to advance efforts to harmonize customer contribution policies and service standards of the AESO and DFOs, at p. 119 of Decision 2007-106, the Board found that the AESO was not required to continue discussions with distribution facility owners (DFOs) regarding contribution policy harmonization as set out in the Decision 2005-096 directions.

Notwithstanding the completion of Board directions regarding AESO/DFO contribution policy harmonization, the AESO's January 8, 2009 evidence states the following at p. 2:

"The AESO's contribution policy will include an O&M charge on all costs, while the contribution policies of distribution facility owners ("DFOs") will not include an O&M charge or will include an O&M charge only on "optional facilities" for load customers. These differences will reduce the harmonization between the AESO's and DFOs' contribution policies."

The AESO's January 8, 2009 evidence also states the following at p. 4:

"The AESO also understands that no DFO in Alberta currently adds an O&M charge to the cost of facilities necessary to provide service to a load customer, whether the cost of those facilities is below or above the DFO's maximum investment. As well, one DFO, FortisAlberta, adds a prepaid O&M charge only to facilities beyond those required for the provision of standard service. The AESO therefore submits that assessing an O&M charge only on facilities in excess of standard increases consistency with DFO contribution policies."

Request:

- (a) Please provide all relevant excerpts from DFO tariff T&Cs relied on by the AESO to support its contention that DFO tariff policies respecting O&M charges on interconnection projects are comparable to the AESO's proposals regarding the O&M charge.
- (b) Given the above-referenced finding in Decision 2007-106 that Decision 2005-096 directions to the AESO to advance the harmonization of AESO and DFO contribution policies need not be continued, please explain why the Commission should afford weight to the fact that the DFOs either do not include an O&M charge or only apply O&M

charges in conjunction with optional facilities as the Commission makes its determinations in respect of the O&M charge.

- (c) To the extent that it is deemed desirable to harmonize the consideration of the O&M charge under the AESO’s tariff with practices set out in DFO tariffs, please explain why the Commission should seek to have AESO tariff practices regarding the O&M charge be harmonized with DFO tariff practices rather than seeking to have DFO tariff practices harmonized with the O&M charge set out in the AESO’s tariff?

Response:

- (a) For FortisAlberta, its Customer Terms and Conditions of Distribution Access Service (effective January 1, 2009) include the following:

7.2.2 Other Contributions

Cost of Optional Facilities

If the Customer requests Facilities beyond or different from those Facilities reasonably or normally required for the provision of Standard Service, as covered in the Customer Extension Costs, the Customer will pay the cost of those optional Facilities, plus prepaid operation and maintenance as indicated in Table 4 of Appendix “B” attached hereto. Such payment is only refundable, in whole or in part as determined by FortisAlberta, if the optional Facilities are deemed by FortisAlberta to be standard (eg. a Load increase) within 10 years of the original payment date. (underlining added)

The referenced Table 4 of Appendix “B” provides, for load customers:

Optional Facilities for Distribution Load Customers	
Prepaid O&M Charge	20% of Optional Facilities Cost

The AESO is not aware of any provisions applicable to load customers and similar to O&M charges on interconnection projects being included in the current terms and conditions of ATCO Electric, ENMAX Power, EPCOR Distribution & Transmission, Lethbridge Electric Utility, or Red Deer Electric Light & Power.

The AESO summarized these findings in section 3 of its evidence in this review and variance proceeding as follows:

The AESO also understands that no DFO in Alberta currently adds an O&M charge to the cost of facilities necessary to provide service to a load customer, whether the cost of those facilities is below or above the DFO’s maximum investment. As well, one DFO, FortisAlberta, adds a prepaid O&M charge only to facilities beyond those required for the provision of standard service.

- (b) The discussion of harmonization of AESO and DFO contribution policies in section 9.2 of Decision 1007-106 included the following:

The Board is encouraged by the AESO's efforts to comply with these directions and considers that the requirements of the harmonization related directions from Decision 2005-096 have been addressed in full. As such, while the AESO may choose to continue discussions with Discos, which were originally commenced to comply with the Board's 2005-096 harmonization directions, the Board direction to continue to do so is no longer required. (page 119)

Given the encouragement provided by the AESO's efforts and the permission for the AESO to continue harmonization discussions with the DFOs, the AESO interprets the comments in Decision 2007-106 as recognizing value in the harmonization of AESO and DFO tariffs, despite there being no requirement for specific harmonization directions.

In any event, the AESO considers that a customer should receive cost signals which encourage the choice of the most economic option for service to that customer, regardless of whether that option involves a transmission or a distribution connection. If the tariffs of the AESO or the DFOs could influence a customer to prefer other than the most economic option, the AESO suggests harmonization of the tariff provisions which cause such unwarranted influence would be worthwhile. The AESO considers such efforts worth pursuing whether or not the AUC has issued specific directions regarding harmonization.

- (c) The AESO generally considers, first and foremost, that the tariffs of both the AESO and DFOs should contain appropriate, relevant, and reasonable provisions for customer connections. Where such provisions are applicable to both transmission and distribution connections, they would presumably appear in the tariffs of both the AESO and all DFOs.

However, if a tariff provision results in both benefits and disadvantages such that it is not clearly appropriate, relevant, and reasonable, it may be helpful to also consider harmonization issues. In such a case the AESO suggests it would be more efficient and expedient to change one tariff (the AESO's) rather than multiple tariffs of several DFOs. As well, a change to the AESO's tariff directly affects only the AESO's customers, which number less than a hundred, whereas a change to the DFOs' tariffs directly affects thousands of customers, even if limited to the DFOs' rate classes for large customers.

Reference: Decision 2005-096, p. 69

Title: Relationship of O&M Charge to Underlying O&M Costs

Preamble: It is noted that whereas Decision 2005-096 set out a number of directions to conduct contribution policy research in anticipation of its 2008 GTA, the AESO advanced work on some Decision 2005-096 contribution policy related directions so that the results of the AESO's research could be taken into account within the AESO's 2007 GTA.

In contrast, the following direction at p. 69 of Decision 2005-096 directed the AESO complete research into the decision of the O&M charge no later than the AESO's 2008 GTA but was not advanced into the AESO's 2007 GTA:

"While the Board believes that the adoption of a 12% prepaid O&M surcharge is directionally appropriate and should be applied for the purposes of the 2006 tariff, the Board is not convinced that sufficient evidence has been gathered to determine that 12% figure appropriately tracks costs. Accordingly, the Board directs the AESO to conduct further analysis of the appropriate amount of the prepaid O&M surcharge and to reflect their findings in the design of the surcharge included no later than with the AESO's 2008 General Tariff Application."

Request:

Please confirm that because the AESO did not advance its research on the derivation of the pre-paid O&M charge so that such research could be discussed in the context of the 2007 GTA, the only evidence available to the Board to assess the relationship between the 12% prepaid O&M charge and underlying O&M costs was evidence provided in the AESO's 2006 tariff proceeding that was filed in the 2007 GTA proceeding through information request responses. If this cannot be confirmed, please explain. If the AESO considers that pertinent evidence beyond the evidence filed in the 2006 proceeding was brought forward in the 2007 GTA proceeding to support the reasonableness of the 12% O&M charge in relation to underlying O&M costs, please provide such evidence.

Response:

The following discussion of TFO operations, maintenance, and administration ("OM&A") costs was included in the *2006 Transmission Cost Causation Update* prepared by PS Technologies Inc. and filed as Appendix C to the AESO's 2007 GTA (pages 54-55):

TFO GTA's contain some information regarding the components of OM&A but this information is insufficient to functionalize OM&A costs in alignment with the functional definitions in use in the TCCS Study. Additional study would be required to determine the OM&A of facilities as they age. Conventional wisdom

indicates that OM&A costs increase as facilities age and this relationship for facilities in Alberta must be understood to properly functionalize these costs.

The OM&A costs were not studied because work was focused in other areas such as classification of Bulk System costs. A study of OM&A costs must ensure that functionalization of OM&A costs is aligned with the functions in the cost study, and that the current distinction between Local System and POD system may change....

At this time, there is insufficient data to properly allocate OM&A costs by function, vintage or equipment type.

Based on the lack of sufficient data to study TFO O&M costs and the focus of work on other areas of its application, the AESO proposed to defer further analysis on an appropriate prepaid O&M rate until its 2008 GTA (as summarized in section 8.1 of its 2007 application).

The AESO accordingly confirms there was no additional evidence available in the 2007 GTA proceeding against which to assess the relationship between the 12% prepaid O&M charge and underlying O&M costs.

The AESO also considers that the level of the O&M charge should not be a significant factor in considering the effects of the charge within the context of the AESO's contribution policy. The effects of the O&M charge should be examined on the basis of underlying principles. The level of the charge may then be determined separately at a later date, if necessary.