

**Administrative Cost of Contribution Refunds** — Decision 2001-6 on the EAL 2001 GRA Customer Contribution Policy included the following direction:

- 5 11. *Further, the Board directs EAL, in the next GTA, to address any change in the recommended project cost threshold for refunds beyond the 10 year period or any administrative cost levy to compensate for the extra administrative cost involved. The Board accepts TCE's argument that customers would be willing to pay for any incremental administrative costs. Accordingly, at the time this issue is addressed, the Board will consider whether the effective date for the requirement for customers to pay the additional administrative costs should be the effective date of the new contribution policy.*
- 10

15 The AESO has determined that the administrative cost to refund load customer contributions are relatively small, particularly in light of the need for a similar process described in the next section of this Application in respect of generator system contributions as required by the Transmission Regulation. Consequently, the AESO is prepared to track and refund load customer contributions over a twenty year period, at no direct cost to customers. The associated terms and conditions of service remain unchanged. However, given that the

20 above noted administrative cost is relatively small, the AESO proposes to eliminate the \$50,000 refund threshold in the AESO's current terms and conditions, reproduced below:

- 25 9.8(c) Commencing in year 11, any project whose remaining adjustment is less than \$50,000 shall be deemed to have an adjustment balance of zero, and no further refunds shall be due.

30 **Prepaid Operations and Maintenance** — Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers.

35 Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system. However, interconnections incur on-going operations and maintenance costs beyond their initial capital costs. The AESO therefore proposes to include a prepaid operations and maintenance charge to ensure load customers do not pay these costs related to generator interconnections.

40 Facilities in excess of AESO standard facilities will also have a prepaid operations and maintenance charge applied. By definition, service can be provided through AESO standard facilities, and all customers share in the on-going operations and maintenance costs associated with such standard facilities the averaging of costs in the AESO's rates. However, it is inappropriate for all customer to share in on-going costs when an individual customer elects facilities in excess of the standard.

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.

**Non-Standard Configurations** — Article 9.14(c) of the proposed terms and conditions of service replaces previous Article 22.4 and continues to recognize the long-standing practice wherein facilities requested by the customer that exceed the AESO standard facilities required to provide service to the Customer are at the customer's cost. Costs arising from customer-requested facilities that exceed the AESO standard facilities required to provide service are also not eligible for the waivers for multiple-user PODs discussed earlier.

## 6.2 System Contributions for Generators

Part 4 of the Transmission Regulation requires the AESO to include in its tariff provisions relating to the local interconnection costs of generating units and the generating unit owner's contribution:

### **Local interconnection costs**

16(1) *The ISO must include in the ISO tariff*

- (a) *local interconnection costs, as defined by the ISO, payable by an owner of a generating unit for connecting to the transmission system;*
  - (b) *the terms and conditions of service and provisions for the recovery of local interconnection costs from owners of generating units.*
- (2) *The ISO must make reasonable efforts to ensure that the interconnection of a generating unit to the transmission system is undertaken in a timely manner.*
  - (3) *The owner of a generating unit that interconnects with the transmission system, and who has paid local interconnection costs, may not prohibit interconnection or access to the interconnection facilities by other market participants.*
  - (4) *If another person makes use of the facilities for which a local interconnection cost has been paid,*
    - (a) *the cost of the use of those facilities by that other person or persons must be allocated to all users in accordance with the ISO tariff, and*
    - (b) *the original local interconnection cost, or a portion of it, must be refunded to the person who paid it in accordance with the ISO tariff.*

**Title:** Terms and Conditions of Service

**Reference:** Prepaid Operations and Maintenance (O&M), Section 6 - Terms and Conditions of Service, p. 20 of 42 and Section 7 – Tariff, s. 9.13 Prepaid Operations and Maintenance, p. 60 of 84.

**Preamble:** Alpac seeks clarification on the derivation of the Prepaid Operations and Maintenance rate.

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 all documentation to support the statement that the proposed 12% O&M charge “is based on the minimum such charge used by other utilities in Alberta.”
  - (b) Please provide documentation from each Alberta TFO's Terms and Conditions outlining their respective levels of Prepaid O&M.
  - (c) Please provide all preliminary review documentation related to the AESO's statement: “preliminary review [of the 12% Prepaid O&M rate] by the AESO indicates this is the minimum reasonable level”.
  - (d) Please confirm that the implementation of the 12% Prepaid O&M proposal will increase the connection costs paid by generators by 12%, given that generators pay all interconnection costs. If the AESO cannot confirm, please provide full details.
  - (e) The application states (s. 6, p. 20 of 42): “Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system.” Please confirm that this provision of the Transmission Regulation is consistent with AESO policy that has been in place since January 1, 1996. If the AESO cannot confirm, please provide full details. Please also discuss the rationale for implementing the 12% Prepaid O&M proposal at this time.
  - (f) Please confirm that using a taxable TFO Discount Rate of 9.27%, the schedule of payments outlined under Schedule 2 in each of Riders A2, A3 and A4 (s. 7, p. 16 to 29 of 84) and the capital charges as outlined in each of Riders A2, A3 and A4 the Present Value (PV) of the Other Expenses Charges for each Rider and the % of PV Expenses are as follows:

% PV Expenses = PV(9.27%) Other Expenses Charge / Capital Charge

	PV Other Expenses Charge	Capital Charge	% of PV Expenses
Rider A2	\$33,829	\$2,375,000	1.4%
Rider A3	\$35,553	\$2,907,800	1.2%
Rider A4	\$68,322	\$5,968,800	1.1%

If the AESO cannot confirm, please provide full details. The calculations are provide in the following embedded spreadsheet:

- (g) Please reconcile the % PV Expenses derived above, which can be characterized as the “pre-paid” cost for each ISD holder to operate and maintain the assets the ISD holder would have had to install to create a physical bypass,<sup>1</sup> with the proposed 12% Prepaid O&M charge.
- (h) Please discuss the equity between customers when comparing the charges outlined in f) above for ISD customers and the proposed 12% Prepaid O&M charge. Please also discuss the comparability of the charges.

<sup>1</sup> Decision 2000-70, p. 3: “In its IR responses to the Board, EAL advised it had contracted with ATCO Electric to prepare a detailed year by year estimate of the operating and capital improvements, which resulted in the forecast for the Other Expenses Charge.”

Decision 2002-60, p. 5: “The Other Expenses Charge simulates expenses for operating and maintenance, capital improvements, and property tax that Shell Canada would incur with the Duplicate Facilities alternative. The TA believed that the Other Expense Charges were commercially reasonable for Duplicate Facilities.”

Decision 2002-19, p. 5: “In the Application EAL proposed an Other Expenses Charge to reflect other expenses that Imperial Oil would incur under the Duplicate Facilities alternative. These expenses consisted of operating and maintenance, capital improvements, and property tax.”

- Response:**
- (a) ATCO Electric’s current Price Schedule D32 (effective January 1, 2003) includes a 3.76% per year incremental operations and maintenance charge for generating customers. FortisAlberta’s current terms and conditions of distribution tariff services (effective January 1, 2005) charges 20% prepaid operations and maintenance for “optional facilities” and for distribution connected generation customers. Vertically-integrated utilities in Alberta previously assessed a 12% prepaid operations and maintenance charge.
- (b) To the AESO’s knowledge, no Alberta TFO’s terms and conditions provide for a prepaid operations and maintenance (or equivalent) charge.
- (c) The AESO did a cursory assessment of each TFO’s annual operating expense as a percentage of it gross property, plant, and equipment, based on

the TFO's most recent approved tariff application. The results were as follows:

Transmission Facility Owner	Annual Operating Expense \$ 000 000	Gross Plant, Property, and Equipment \$ 000 000	Ratio %
AltaLink	\$ 56.1	\$1,763.9	3.2%
ATCO Electric	43.1	1,193.0	3.6%
EPCOR Transmission	10.8	289.4	3.7%
ENMAX Power	17.3	209.8	8.2%
Lethbridge	2.6	24.0	11.0%
Red Deer	0.9	11.8	7.3%
TransAlta Utilities	1.2	26.5	4.5%
<b>Total</b>	<b>\$ 131.9</b>	<b>\$3,518.5</b>	<b>3.7%</b>

This range of operating expense ratio would all result in materially greater than a 12% prepaid operation and maintenance charge over a 20 year contract term. Even with appropriate additional adjustments, such as estimating the replacement cost new for the gross property amount and utilizing annual operating expense and gross property relating to customer-related facilities only, the ratios are expected to still support a prepaid O&M charge greater than 12%.

- (d) Confirmed. Please refer to Information Response BR.AESO-041 (a) for an example calculation.
- (e) Confirmed. The Transmission Regulation establishes in legislation the prior practice of the AESO and its predecessor organizations. With the formalization of this practice, with other changes to the AESO's contribution policy, and with the overall review of the AESO's terms and conditions completed as part of its 2005-2006 GTA, this Application seemed an appropriate time to introduce the prepaid operation and maintenance charge.
- (f) The AESO confirms the amounts presented in part (f) of the request. The AESO notes that the "PV Other Expenses Charge" is a present value of 40 monthly charges. The present value of 40 annual amounts is as follows:

	PV Annual Other Expenses Charge	Capital Charge	% of PV Expenses
Rider A2	\$405,950	\$2,375,000	17.1%
Rider A3	\$426,683	\$2,907,800	14.7%
Rider A4	\$819,859	\$5,968,800	13.7%

- (g) The "% of PV Expenses" presented in part (f) above confirm that 12% is a reasonable minimum level at which to establish a prepaid operations and maintenance charge, until a more detailed assessment can be completed.

- (h) The charges discussed in part (f) above were based on detailed estimates for specific facilities, while the proposed 12% prepaid operations and maintenance charge is a general average to be applied to a variety of projects. As such the numbers are reasonably comparable, and support the use of a 12% charge as a minimum value until a more detailed assessment can be completed. The three DAT customers to which Riders A2, A3, and A4 apply would be treated equitably if other customers were charged a 12% or comparable prepaid operations and maintenance charge for optional facilities.



**Reference:** Prepaid O&M, Section 6, page 20

**Request:**

- a) Please provide an example of how this formula would be applied to an STS customer and a DTS customer.
- b) Please indicate when the AESO may plan on doing further research into this matter.

**Response:**

- a) For an STS customer, the cost of facilities which exceed AESO standard facilities (as determined under Article 9.3(c)) would have an amount of 12% added in respect of prepaid operations and maintenance. As well, the customer contribution required for customer-related costs (as determined under Article 9.4(b)) would also have an amount of 12% added in respect of prepaid operations and maintenance. For example, consider as STS customer signing a 20-year STS contract for 20 MW, with project costs of \$15,000,000 as follows:

1. Project costs:	\$15,000,000	
2. Cost of AESO standard facilities:	<u>13,000,000</u>	
3. Costs in excess of AESO standard facilities:		\$ 2,000,000
4. Prepaid operations and maintenance (12%):		240,000
5. System-related costs:	- <u>1,000,000</u>	
6. Customer-related costs:	12,000,000	
7. Local investment (\$0):	- <u>0</u>	
8. Customer contribution:		12,000,000
9. Prepaid operations and maintenance (12%):		<u>1,440,000</u>
10. Total customer cost:		\$15,680,000

For a DTS customer, the cost of facilities which exceed AESO standard facilities (as determined under Article 9.3(c)) would have an amount of 12% added in respect of prepaid operations and maintenance. For example, consider a DTS customer signing a 20-year DTS contract for 20 MW, with project costs of \$15,000,000 as follows:

1. Project costs:	\$15,000,000	
2. Cost of AESO standard facilities:	<u>\$13,000,000</u>	
3. Costs in excess of AESO standard facilities:		\$2,000,000
4. Prepaid operations and maintenance (12%):		\$ 240,000
5. System-related costs:	- <u>\$ 1,000,000</u>	
6. Customer-related costs:	\$12,000,000	
7. Local investment (\$27,000 × 20 MW × 20 yrs):	- <u>\$10,800,000</u>	
8. Customer contribution:		<u>\$1,200,000</u>
9. Total customer cost:		\$3,440,000

- b) The AESO expects to continue its examination of prepaid operations and maintenance after the record is complete for its 2006 GTA, including further stakeholder consultation in the fall of 2005 in preparation for the AESO's 2007 GTA.

**Reference:** Application, Section 6.1 (Customer Contribution); p.20;

**Preamble:** The Application states:

Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers.

- Request:**
- (a) Please explain why the costs of O&M must be of a pre-paid nature. Please explain why customers cannot pay for such O&M charges on an annual basis.
  - (b) Please explain how the AESO will apply such monies to offset the annual TFO revenue requirement over the life of the asset.
  - (c) If the AESO intends to apply such funds as a one-time offset explain how this addresses inter-generational inequity.

- Response:**
- (a) The prepayment of O&M is consistent with the payment of customer and system contributions prior to construction of transmission facilities, in accordance with Article 9.2 of the proposed terms and conditions. In general, prepayment reduces the risk of under-recovery of costs in the event that customers could not fulfill ongoing financial obligations.
  - (b-c) Prepaid O&M will be paid to TFOs with other customer contributions and will be amortized over time to offset the annual TFOs' revenue requirements.

**Reference:** AESO 2006 General Tariff Application: Section 7, Terms and Conditions, Article 9.13, Prepaid Operations and Maintenance, p. 60

**Preamble:** For Customers taking service under Rate STS, a prepaid operations and maintenance charge of 12% will be added to the Customer-related costs. For facilities which exceed the AESO Standard Facilities required to provide service to the Customer, a prepaid operations and maintenance charge of 12% will be added to the cost in excess of AESO Standard Facilities.

**Requests:**

- a) Is it intended that the provisions of Article 9.13 apply only to facilities approved by the AEUB (either under section 34 of the Electric Utilities Act or section 14 of the Hydro and Electric Energy Act) after the proposed Terms and Conditions come into effect? Explain.
- b) Is it intended that the prepaid operations and maintenance charge be a one-time charge or would the customer be required to pay ongoing charges? Explain.

**Response:**

- a) The AESO intends to apply Article 9.13 in respect of facilities installed in relation to new interconnections where the customer has signed a SAS agreement on or after January 1, 2006.
- b) The charge is for pre-paid O&M and will be levied once for the life of the interconnection facilities.



Friday, February 25, 2005

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**FIRM.AESO-258 (a)**

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**Reference:** Application, Section 6, page 20

**Preamble:** Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers.

**Request:** (a) Based on historical operations and maintenance costs, please provide support for the proposed 12% prepaid O&M charge

**Response:** (a) Please refer to Information Response ALPAC.AESO-003 (c).

**Reference:** Application, section 6, page 20

**Preamble:** The Application states that "Article 9.13 of the proposed terms and conditions of service provides for the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers."

**Request:**

- (a) Please provide the average maintenance and operation cost of substations for each transmission voltage. Also provide a similar cost breakdown for transmission lines by voltage level.
- (b) Please provide the analytical support for the 12% charge.
- (c) Please explain why the AESO has chosen to use one cost for all types of substation and transmission lines.

**Response:**

- (a) The AESO does not have the requested information at the requested level of detail. As explained on page 21 of section 6 of its 2006 Application, the AESO has not completed a detailed analysis of operation and maintenance costs and is instead proposing a minimum charge at this time.
- (b) Please refer to Information Response ALPAC.AESO-003 (a) and (c).
- (c) Please see part (a) above.

0282

01 facility owners?

02 A MR. MARTIN: Yes, I believe we could  
03 do that under the regulation or the  
04 legislation.

05 Q Could I have you turn up ALPAC-AESO-3(c), which  
06 is Exhibit 2-18.

07 A MR. MARTIN: Yes, I have that.

08 Q In this response, you provide a table comparing  
09 the annual operating expenses with the gross  
10 plant for a number of TFOs. From this  
11 comparison, the AESO's inference is (quoted):

12 "This range of operating expense ratio  
13 would all result in materially greater  
14 than a 12% prepaid operation and  
15 maintenance charge over a 20 year  
16 contract term. Even with appropriate  
17 additional adjustments, such as  
18 estimating the replacement cost new  
19 for the gross property amount and  
20 utilizing annual operating expense and  
21 gross property relating to  
22 customer-related facilities only, the  
23 ratios are expected to still support a  
24 prepaid O&M charge greater than 12%."

25 Can you tell me why the

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01 AESO is recommending 12 percent when its own  
02 analysis indicates the percentage should be  
03 higher?

04 A MR. MARTIN: So we looked at the  
05 possibilities for prepaid O&M from different  
06 perspectives. The particular information  
07 provided relates to one of those perspectives,  
08 and the difficulty we ran into was that when  
09 you get into a detailed calculation, you end up  
10 having to make a certain number of assumptions,  
11 specifically around things like age of  
12 facilities and length of term and things like  
13 that.

14 When we made different  
15 assumptions, we came out with a wide range of  
16 possible levels of prepaid O&M, sometimes in  
17 excess of 20 percent, other times down in the  
18 lower teens.

19 I don't believe at any  
20 time we got down to 12 percent, but 12 percent  
21 has been used in the past, and it seemed like a  
22 reasonable place to start while we examined  
23 this issue in more detail and provide a  
24 well-grounded analysis for any revisions that  
25 we propose for the prepaid O&M level.

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01 Q I mean, the response indicates a more detailed  
02 assessment is being contemplated. That's in  
03 ALPAC-3(g). Can you tell me when that is  
04 expected to be completed?

05 A MR. MARTIN: We expect to file it at  
06 the time of our next Phase II application.

07 Q And if I can just go back to the generator  
08 contribution and also the customer  
09 contribution, where if a second customer hooks  
10 onto the system, then it's considered part of  
11 the entire system, and there's a refund.

12 Is there any limitation  
13 in terms of materiality of the size of load  
14 that connects on before it's considered to be  
15 system costs as opposed to customer?

16 A MR. MARTIN: We assume that it would  
17 be a load appropriate to be connected to the  
18 transmission system.

19 Q So if, for example, you had a remote area of  
20 line and you have a customer whose best option  
21 is to attach to the transmission line, but they  
22 have a relatively small load as compared to the  
23 original customer, would there be any type of  
24 assessment done to determine whether that full  
25 amount of the contribution should be refunded,

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Article 9.8 of the proposed terms and conditions of service has been revised to state that if facilities are installed to serve a customer and later used to serve other customers, those facilities will be deemed to be system-related and any customer contribution paid by the original customer for those facilities will be refunded. These provisions address the requirements of the quoted clause [16(4)] of the Transmission Regulation.

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In response to Direction 11 of Decision 2001-6, the AESO also examined the administrative costs of contribution refunds (Application, section 6, p. 20):

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The AESO has determined that the administrative cost to refund load customer contributions are relatively small, particularly in light of the need for a similar process described in the next section of this Application in respect of generator system contributions as required by the Transmission Regulation. Consequently, the AESO is prepared to track and refund load customer contributions over a twenty year period, at no direct cost to customers.

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For the reasons provided in the Application, the AESO submits that the provisions respecting contribution refunds should be approved as filed.

#### **5.1.6.5 Prepaid O&M**

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In the 2006 Application the AESO proposed to introduce the payment of an additional prepaid operations and maintenance charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers (section 6, p. 20):

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Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system. However, interconnections incur on-going operations and maintenance costs beyond their initial capital costs. The AESO therefore proposes to include a prepaid operations and maintenance charge to ensure load customers do not pay these costs related to generator interconnections.

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Facilities in excess of AESO standard facilities will also have a prepaid operations and maintenance charge applied. By definition, service can be provided through AESO standard facilities, and all customers share in the on-going operations and maintenance costs associated with such standard facilities the averaging of costs in the AESO's rates. However, it is inappropriate for all customer[s] to share in on-going costs when an individual customer elects facilities in excess of the standard.

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In general, parties did not oppose the prepaid O&M charge, but questioned the 12% level at which it was proposed. The AESO provided an explanation in the Application (section 6, p. 21):

5 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  
10 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.

Additional details respecting the level of prepaid O&M were provided in Information  
Response ALPAC.AESO-003. Some parties suggested the charge should be higher than  
15 12% (T0282-83):

Q Can you tell me why the AESO is recommending 12 percent when its  
own analysis indicates the percentage should be higher?

20 A MR. MARTIN: So we looked at the possibilities for prepaid O&M from  
different perspectives. The particular information provided relates to  
one of those perspectives, and the difficulty we ran into was that when  
you get into a detailed calculation, you end up having to make a  
certain number of assumptions, specifically around things like age of  
25 facilities and length of term and things like that.

When we made different assumptions, we came out with a wide range  
of possible levels of prepaid O&M, sometimes in excess of 20  
percent, other times down in the lower teens.

30 I don't believe at any time we got down to 12 percent, but 12 percent  
has been used in the past, and it seemed like a reasonable place to  
start while we examined this issue in more detail and provide a well-  
grounded analysis for any revisions that we propose for the prepaid  
35 O&M level.

In Information Response ENCANA.AESO-008 (a), the AESO explained why it was  
appropriate that the charge be of a prepaid nature:

40 The prepayment of O&M is consistent with the payment of customer and  
system contributions prior to construction of transmission facilities, in  
accordance with Article 9.2 of the proposed terms and conditions. In general,  
prepayment reduces the risk of under-recovery of costs in the event that  
customers could not fulfill ongoing financial obligations.

5 Based on the above, the AESO submits it is reasonable to introduce a prepaid O&M charge of 12% on customer related costs for STS customers and on facilities in excess of AESO standard facilities for all customers, and that the prepaid O&M charge should be approved as filed.

#### 5.1.6.6 Contract Term, Reductions, and Termination

10 The proposed 2006 terms and conditions continue the current terms and conditions requirement for a five-year notice for contract reductions and terminations. The reasons for the notice period were provided by Mr. Martin (T0105):

15 A MR. MARTIN: The five-year notice period is part of our overall approach to transmission cost recovery, and it needs to be looked at in the examination, or needs to be looked at in the overall tariff, including the investment proposal and the charges under our DTS rate.

20 I think, though, that the need for long-term system planning is the primary driver for the five-year requirement or contract notice, but not the only one.

25 Q Okay. So if I can just summarize what I think I heard you say, is that there's really three things that you anticipate that the 60-month notice period provides: The first and foremost is the need for system planning; secondly, some tie-back to your investment policy; and thirdly as part of your tariff design, it's part of your overall cost recovery mechanism?

30 A MR. MARTIN: Yes.

In Information Response ENCANA.AESO-090 (a), the AESO explained the distinction between demand ratchet periods and contract notice periods:

35 The DTS ratchet is a short term cost recovery tool, which recovers costs from customers that use transmission facilities in excess of their contracted capacity. The five year notice period on the other hand allows the AESO to effectively plan the transmission system. To conduct effective system  
40 planning, the AESO requires a clear understanding of how the system is being used. The highest Metered Demand during the five year notice period provides a more accurate view of the customers use and impact on the system in that area.



submits a load first principle is appropriate to determine investment in DTS load at dual use sites. Therefore, cost estimates are only required for DTS service, whether at load-only or dual-use sites. The AESO submits there is no requirement for cost estimates for standard service for the STS service at dual use sites.

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#### 5.1.6.4 Contribution Refunds

FIRM proposed (FIRM Argument, p. 101) that “consistent with existing contribution refund policies, FIRM submits the \$50,000 threshold for contribution refunds should also be maintained to mitigate administrative costs.” Given that the AESO has addressed in this Reply Argument the issues raised by FIRM and demonstrated that the proposed contribution policy should be approved as filed, FIRM’s argument for consistency no longer has merit. The AESO therefore submits that, as stated in the 2006 Application (section 6, p. 20), the \$50,000 refund threshold is no longer required and its elimination should be approved as filed.

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#### 5.1.6.5 Prepaid O&M

Alpac opposed (Alpac Argument, p. 3) the proposed 12% prepaid O&M charge for generators and optional facilities, based on the premise it was not consistent with the Transmission Regulation and will result in discrimination between existing and new AESO customers. The AESO submits that local interconnections incur on-going operations and maintenance costs beyond their initial capital costs, and that a prepaid operations and maintenance charge ensure load customers do not pay these local interconnection costs consistent with section 16(1) of the Transmission Regulation.

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Alpac also suggests (p. 5) that since generators have not been charged prepaid O&M since January 1, 1996, they cannot be charged prepaid O&M now as it will create an unlevel and unfair playing field. The AESO submits the customer contribution policy continues to evolve, as witnessed by the introduction of the DTS-STTS ratio in Decision 2001-6 and the system contribution for generators in the Transmission Regulation. The review of historical policies and the development of new ones is part of the normal course of business. As stated in the 2006 Application (section 6, pp. 20-21), the prepaid O&M charge is a reasonable charge for generator local interconnections and the AESO submits it be approved as filed.

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FIRM supported (FIRM Argument, p. 102) the introduction of the prepaid O&M charge but recommended the level be 15.2% rather than 12%. As explained in AESO Argument (p. 52), the 12% charge is appropriate and should be approved at this time.

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#### 5.1.6.6 Contract Term, Reductions, and Termination

Alpac opposed (Alpac Argument, p. 6) the AESO’s five year-notice provision for contract reductions or terminations for DTS customers, citing that the notice period was not needed for system planning purposes, DTS and STS customers were not being treated the same,