

ALPAC ARGUMENT

INTRODUCTION & SUMMARY

- 1 Alberta Pacific Forest Industries Inc. (Alpac) retained Stantec Consulting Ltd. to review a number of the AESO's proposed tariff provisions that may have an impact on Alpac's plans to move from distribution service to transmission service. Alpac's concerns with respect to the AESO's proposed five year notification provision was summarized during cross examination:

ALPAC is a FortisAlberta distribution connected dual-use customer with about 55 megawatts of on-site load and up to 64 megawatts of on-site generation. ALPAC has requested a transmission interconnection from the AESO, and we hope that the applications requesting the transmission connection will be filed with the Board early next year. ALPAC is concerned over the level of exit fees that FortisAlberta Inc. has requested ALPAC to pay as a result of their move from distribution to transmission. Part of these exit fees stem from the AESO's five year notification requirement which imposes charges on FortisAlberta who, in turn, impose those charges on their customers.¹
- 2 Alpac's main concern is with the five year notice provision imposed under proposed Article 14.2 (b). In Alpac's view, the five year notice provision is not appropriate for the following reasons:
 1. The five year notice provision is not required for effective system planning
 2. DTS and STS customers are not treated in a consistent and fair manner
 3. The five year notice provision is not consistent with the AESO's proposed contribution policy
 4. System cost recovery should not be borne on exiting customers after the contribution policy related contract term
 5. The five year notice provision causes an unwarranted impact on electric distribution utility tariffs and their customers
- 3 We recommend that the Board direct the AESO to waive the notice period to FortisAlberta related to Alpac's exit from the distribution network. Alpac also recommends that the notice period under Article 14.2 (b) be reduced from five years to two years and that the Board direct the AESO to further demonstrate the need for a notification period in the next GTA.
- 4 Alpac supports the AESO's proposed 2006 contribution policy.
- 5 Alpac opposes the AESO's proposal to initiate a 12% O&M charge on capital costs related to supply additions and all load related capital contributions.

¹ T. 87/11 – 88/04

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5.1.2 Designation Of System-Customer Costs

5.1.3 Maximum Investment Formula

- 11 The proposed \$27,000/MW/year maximum investment rate has two endearing qualities. Firstly, the investment is directly proportional to the DTS Contract Capacity and corresponding DTS revenue. Secondly, the longer the contract term, and the quantum of guaranteed DTS rate revenue, the greater the investment. Revenues are aligned with costs.
- 12 Alpac supports the proposed \$27,000/MW/year maximum investment rate.

5.1.4 Multiple-User Pod Waiver

5.1.5 AESO Standard Facilities Definition

5.1.6 Miscellaneous contribution policy Issues

5.1.6.5 Prepaid O&M

- 13 Alpac objects to the proposed 12% O&M charge for the following reasons:
- The application of the 12% O&M charge is not consistent with the *Transmission Regulation*.
 - The application of the 12% O&M charge in 2006 will result in discrimination between existing AESO customers and new AESO customers.

- 14 The AESO states in their application:

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.²

- 15 The *Transmission Regulation* indicates that the “costs of the transmission system” are to be charged to load customers:

30 *When considering an application for approval of the ISO tariff under sections 121 and 122 of the Act, the Board must*

(a) *ensure*

(i) *the just and reasonable **costs of the transmission system** are wholly charged to owners of electric distribution systems, customers who are industrial systems and persons who have made an*

² Ex. 02-012-005, Prepaid Operations and Maintenance (O&M), Section 6 - Terms and Conditions of Service, p. 20 of 42

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arrangement under section 101(2) of the Act, and exporters, to the extent required by the ISO tariff³

16 The *Transmission Regulation* also indicates that local interconnection costs are to be charged to generation customers:

- 30 *When considering an application for approval of the ISO tariff under sections 121 and 122 of the Act, the Board must*
- (b) *ensure owners of generating units are charged **local interconnection costs to connect their generating unit to the transmission system, and are charged a financial contribution towards transmission system upgrades and for location-based cost of losses;***

and;

- 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,**⁴*

17 Alpac submits that s. 30(a) of the *Transmission Regulation* should be interpreted to mean that all wires related costs are allocated to load customers. Alpac further submits that s. 30(b) and s. 16(1) should not be interpreted such that generation unit owners are responsible for on-going operations and maintenance costs.

18 In s. 30(b) the *Transmission Regulation* clearly articulates that three types of costs are to be charged to owners of generating units, namely interconnection costs, a financial contribution to towards system upgrades and location based losses. With respect to the latter two, the *Transmission Regulation* further articulates specifically on how the charges are to be structured and applied under s. 17 and s. 22, respectively. There are no further directions in the *Transmission Regulation* to suggest that local interconnection costs should be expanded beyond the current practice of the recovery of capital costs.

19 Alpac notes from s. 16(b) the specific wording that “local interconnection costs” are “payable by an owner of a generating unit for **connecting to** the transmission system.” The wording does not suggest that owners of generating units are financially responsible for the operation and ongoing maintenance of portions of the transmission system. Alpac submits that the *Transmission Regulation* is fairly prescriptive and if the intent was to impose ongoing charges on owners of generating units the *Transmission Regulation* would have specifically so indicated.

20 When asked for the rationale for imposing the 12% O&M charge in 2006, the AESO responded as follows:

³ Alberta Regulation 174/2004, Electric Utilities Act, *Transmission Regulation*, s. 30 (emphasis added)

⁴ Ibid

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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.⁵

- 21 With respect, Alpac submits that the *Transmission Regulation* does not provide the ability for the AESO to initiate the imposition of O&M charges. Further, the AESO has not provided evidence to support the O&M charge in light of changes proposed to the terms and conditions, and specifically with respect to the proposed contribution policy.
- 22 The AESO has confirmed that owners of generating units have only been charged local interconnection capital charges since January 1, 1996.⁶ The proposed O&M charge will in effect increase the capital contribution paid by owners of new generation units by an additional 12%.⁷ By imposing an additional capital contribution on new generation unit owners the AESO will create an unlevelled, and in our view unfair, playing field. New generating unit owners will have a competitive disadvantage compared to existing owners.
- 23 The AESO notes that "Vertically-integrated utilities in Alberta previously assessed a 12% prepaid operations and maintenance charge."⁸ Alpac submits that if the practice of some vertically-integrated utilities charging pre-paid O&M charges was to be continued post-industry re-structuring in 1996 then the appropriate time for the AESO to implement this provision was in the first Gridco tariff in 1996. Imposing pre-paid O&M charges after a decades absence provides an unwarranted first-mover advantage for the generation unit owners who have developed projects since 1996.
- 24 Alpac acknowledges that the *Transmission Regulation* under s. 17 does impose a new financial contribution towards transmission system upgrade charges on new generation unit owners. However, unlike the proposed O&M charge, the new owner's contribution charges are refundable under s. 17(4)(a).
- 25 Alpac submits that the AESO's interpretation that a 12% O&M charge should be applied to a new generation units owner's local connection costs is not supported by the *Transmission Regulation* and a significant departure from historical practice since 1996 and therefore the proposed 12% pre-paid O&M charge should not be approved.

5.1.6.6 Contract Term, Reductions, And Termination

- 26 Alpac supports the AESO's proposed variable 5 to 20 year contract term.

⁵ Ex. 05-001, ALPAC.AESO-003 (e)

⁶ Ibid

⁷ Ex. 05-001, ALPAC.AESO-003 (d)

⁸ Ex. 05-001, ALPAC.AESO-003 (a)

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3. That the Board direct the AESO to evaluate the need for an exit provision for AESO load customers and provide justification for the continuation of a load customer notice provision in the next GTA.
4. That the Board approve the AESO's proposed contribution policy (Article 9) and make it effective as soon as practical after it is approved by the Board.
5. That the Board not approve the proposed 12% O&M charge and direct the AESO to collect to all wires related operation and maintenance costs under the DTS rate.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 16TH DAY OF MAY 2005.

Stantec Consulting Limited

**W. Dale Hildebrand, P.Eng., M.B.A.
Consultant to Alpac**

5.1.6.4 Contribution Refunds

With respect to contribution refunds, the AESO states:

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 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." [Section 6; p.20]

FIRM's recommendations in this Argument with respect to system versus customer facilities and reclassification of customer facilities as system facilities for DTS customers and associated contribution refunds are different from those proposed by the AESO. Given FIRM's recommendations are more consistent with existing contribution refund policies, FIRM submits the \$50,000 threshold for contribution refunds should also be maintained to mitigate administrative costs.

Summary –

FIRM's recommendations in this Argument on system versus customer facilities and reclassification of customer facilities as system facilities and resulting contribution refunds are different from those proposed by the AESO. Given FIRM's recommendations are more consistent with existing contribution refund policies, FIRM submits the \$50,000 threshold for contribution refunds should also be maintained to mitigate administrative costs.

5.1.6.5 Prepaid O&M

The AESO's 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.

FIRM examined the AESO on why the 12% charge is considered appropriate when ALPAC.AESO-3(c) indicates the percent to be higher. In response, the AESO indicates the 12% number was used in the past and is a reasonable place to start while the issue of the appropriate O&M level is examined in more detail. [T283;L14]

In ALPAC.AESO-3(f), the AESO provides Riders A2, A3 and A4 O&M percentages applicable to DAT customers:

	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%

In ALPAC.AESO-3(h), and in reference to the above table, the AESO states:

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.

In FIRM's submission, the 12% proposed prepaid O&M level is not supported by historical O&M levels or by Riders A2, A3 and A4 O&M levels, as shown in response to ALPAC.AESO-3. In the absence of supporting evidence, FIRM submits the prepaid O&M charge should be set, for purposes of these proceedings, at the level of the average of the Rider A2, A3 and A4 O&M percentages, or 15.2%, until the detailed review referred to by the AESO is completed.

Summary –

FIRM submits the proposed 12% level for the prepaid O&M charge is not supported by historical O&M levels or by Riders A2, A3 and A4 O&M levels. In the absence of supporting evidence and for purposed of these proceedings, FIRM recommends the prepaid O&M charge should be set at the level of the average of the Rider A2, A3 and A4 O&M percentages, or 15.2%, until the detailed review referred to by the AESO is completed.

5.1.6.6 Contract Term, Reductions, and Termination

FIRM examined the AESO with respect to the contract term reductions and terminations policy reflected in Articles 14.1 to 14.3 of the T&Cs. In particular, Article 14.1 states:

In the event that a Customer desires to reduce the Contract Capacity at an existing POD or POS, the Customer must execute an amended System Access Service Agreement and pay any associated Customer Contribution, as determined by the AESO.

Article 14.2 Notice to Reduce states, in part,:

Reductions of Contract Capacity at a POD or a POS will be made five years after receipt of written notice from the Customer.

The AESO acknowledges Article 14.1 relates to recovery of customer related facilities whereas Article 14.2 relates to costs other than local costs:

I will agree that Article 14.1 does relate to the customer-related facilities and the associated customer contribution. Section 14.2 does relate to ongoing revenue requirements, which would include cost other than just local system cost. [T264;L19]

The AESO also indicates the 5 year notice period under Article 14.2 was chosen considering cost recovery for system related facilities, rate design and investment policy:

AESO has not been collecting any significant customer contributions for optional facilities in the past. The AESO further states that the “typical supply arrangement” should consider the backup requirements when the POD load exceeds 15 MVA and that the “standard of service”²⁵⁶, developed by the AESO and DFOs should ensure that POD service is restored within a maximum of 24 hours. Plant outages of 4 to 7 days for larger loads in excess of 15 MVA have significant financial repercussions and are unacceptable. All of the forgoing clearly demonstrate support for TransCanada’s definition of AESO Standard Facilities.

TransCanada recommends that the Board approve the TransCanada definition of AESO Standard Facilities to generally consist of two lines of transmission circuit and two transformers to supply an individual POD for peak loads at or above 15 MVA and to generally consist of a single radial transmission circuit and a single transformer to supply an individual POD for peak loads below 15 MVA.

5.1.6 Miscellaneous Contribution Policy Issues

5.1.6.1 Dual-Use Sites

5.1.6.2 Staged Load

5.1.6.3 Cost Estimate Assumptions

5.1.6.4 Contribution Refunds

5.1.6.5 Prepaid O&M

TransCanada takes no position on issues 5.1.6.1 to 5.1.6.5 at this time, but reserves its right to make further submissions in reply argument.

5.1.6.6 Contract Term, Reductions, and Termination

Article 14.2 of the AESO Terms and Conditions contains a provision to reduce a customer’s Contract Capacity.²⁵⁷ The AESO tariff is unduly inflexible when no investment was made for the additional capacity used by a customer or when the customer is prepared to extend the length of the contract term (beyond the original five years) in order to ensure that revenues secured under the contract are unaffected on a net present value basis. It is the AESO’s position that the current practice that provides two options of: (i) “either continuing to pay the DTS charge during the five

²⁵⁶ Exhibit 02-033, TCE.AESO-238(a) Attachment, Distribution Point-of Delivery Interconnection Process Guideline – Standard of Service, page 20

²⁵⁷ Exhibit 02-012-006, Application, Section 7, page 69

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15 Alpac submits that the principles that form the basis of the proposed contribution policy are appropriate to comply with the *Transmission Regulation* and to provide greater harmony with the four Board regulated electric distribution utilities.

5.1.2 Designation Of System-Customer Costs

5.1.3 Maximum Investment Formula

16 As noted in section 5.1.1 High Level Policy Principles above, some interested parties are concerned that the maximum investment level is too high. With respect, the setting of the maximum investment level should be based on the principle of 80% of new extensions not requiring a customer contribution. Arguments presented on the average costs to serve existing or new customers do not suggest that the test for setting the maximum investment level has been violated and hence there is no justification for reducing the maximum investment rate.

5.1.4 Multiple-User Pod Waiver

17 There are diverging views on the appropriateness of a multi-user waiver and the implications for tariff design in both the short and long term. Alpac does not have a view on the appropriateness of a multi-user waiver. Alpac is concerned that the issue of who pays for electric distribution utility capital contributions may have an impact on the design of the AESO's contribution policy. With respect, Alpac submits that the AESO's contribution policy design should be tested and approved without consideration of the multi-user waiver issue. Once the AESO's contribution policy is set issues regarding its application (e.g. multi-user waiver) should then be addressed.

5.1.5 AESO Standard Facilities Definition

5.1.6 Miscellaneous Contribution Policy Issues

5.1.6.5 Prepaid O&M

18 The FIRM Customers support a pre-paid O&M charge and suggest the rate should be higher than 12%.¹² With respect, Alpac submits that the Board should first determine if a pre-paid O&M charge is appropriate under the AESO's postage stamp tariff and at this juncture in the development of the electric energy industry in Alberta. As suggest by Alpac is argument,¹³ the pre-paid O&M charge may not be consistent with the *Transmission Regulation* and will be a significant departure from the AESO's tariff over the past decade.

5.1.6.6 Contract Term, Reductions, And Termination

19 The FIRM Customers note that "the AESO has not made any assessment of whether the present notice period is adequate" as the FIRM considers that "the notice period is

¹² Firm Customer Argument, p. 101-103

¹³ Alpac Argument, p. 3-5

5.1.6.5 Prepaid O&M

Alpac submits s.30 (a) of the *Transmission Regulation* should be interpreted to mean all wires related costs are allocated to load customers. Alpac further submits s.30 (b) and s.16 (1) should not be interpreted to mean generation unit owners are responsible for on-going operations and maintenance costs.

In addition to the foregoing, Alpac submits the AESO's interpretation a 12% O&M charge should be applied to a new generation units owner's local connection costs is not supported by the *Transmission Regulation* and is a significant departure from historical practice since 1996. Therefore, Alpac recommends the proposed 12% pre-paid O&M charge not be approved.

In response, FIRM notes s.16 (1) of the Transmission Regulations states:

s.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.

In FIRM's submission, the legislation is clear the local interconnection costs "as defined by the AESO" are payable by the owner of a generating unit. The AESO has defined the local interconnection costs to be the capital cost of the interconnection, including the prepaid O&M associated with maintaining the line over its life. This is consistent with sound regulatory principles and practice where the cost responsibility for the asset, as well as the associated operating and maintenance expenses, are attributed to the same party or rate class. On the contrary, Alpac's recommendation would result in splitting responsibility for the capital cost from responsibility for operating costs and this is not consistent with the principles of cost causation. Accordingly, Alpac's recommendation to remove O&M expense associated with generator local interconnections from load customers should be rejected.

FIRM notes the purpose of prepaid O&M expenses is to offset future O&M expenses during the life of the local interconnection facility. Accordingly, FIRM recommends any prepaid O&M expenses should be treated by the AESO as a contribution and amortized over the life of the facility.

Summary –

Alpac's recommendation to remove O&M expense associated with generator local interconnections from load customers should be rejected. Further, FIRM notes the purpose of prepaid O&M expenses is to offset future O&M expenses during the life of the local interconnection facility. Accordingly, FIRM recommends any prepaid O&M expenses should be treated by the AESO as a contribution and amortized over the life of the facility.

5.1.6.6 Contract Term, Reductions, and Termination

Alpac submits the minimum notice period for exiting or load reducing customers should be reduced from the 5 year period proposed by the AESO under Article 14.2 of the T&Cs to 2 years. Further, since the AESO only plans for DTS Contract Capacity, Alpac recommends the financial penalty for not providing adequate notice should be based on DTS Contract Capacity, not on the highest Metered Demand. [Alpac Argument, p.17] In support of the reduction from a 5 year to a 2 year notice period, Alpac submits the following:

- The AESO's desire to extract perfect load reduction information from its customers via the five year notice period is unwarranted. Considering the limited value of this information when compared to the more significant impact load growth and supply addition information will have on the AESO's transmission planning process, the proposed Article 14.2 provisions are excessive. [Ibid, p.8]