2020-2021 Plan for ISO Tariff-Related Activities

Introduction

This plan provides an overview of the ISO tariff-related activities that the AESO intends to progress and engage on in Q4 2020, and in 2021. The intent is to provide stakeholders with a consolidated comprehensive view of the AESO's 2020 and 2021 planned ISO tariff-related activities for their information and planning purposes. Issues being addressed by the Alberta Utilities Commission (Commission or AUC) Distribution System Inquiry or tariff implementation matters in ongoing ISO tariff-related AUC proceedings (e.g. 2019 DAR) are not included here.

The ISO tariff is central to many on-going changes in the Alberta electricity industry. The wires costs required to be recovered through the ISO tariff have been increasing over the past decade with completed transmission reinforcements, while new technologies such as distributed energy resources and energy storage are changing the ways the transmission system is used. The current ISO tariff rate design needs to evolve and adapt to these changes. At the same time, consumers need clear and stable price signals to be provided by the ISO tariff so they can make effective business decisions. This requires a more modern approach to tariff rates, structure and processes to keep pace and adapt as required to a rapidly changing landscape. As such, the AESO is considering both the short-term and long-term timeframe as it evolves the design of the ISO tariff in order to:

- send price signals to incent the efficient use of transmission infrastructure;
- effectively reflect both the cost of transmission service and the value received from a connection to the transmission system;
- provide clear and simple price signals to users of the transmission system;
- evolve the ISO tariff in a manner that is effective, but minimally disruptive;
- be adaptable to changing conditions; and
- allow market participants to innovate and provide economic value to all of Alberta.

The overall objective is to ensure the AESO continues to facilitate a fair, efficient and openly competitive market for an evolving electrical system while also providing certainty and stability to the cost structure for consumers.

The tariff-related activities the AESO is progressing in 2020 and 2021 have been prioritized based on three main drivers: maintaining the tariff function of setting required rates and ensuring overall revenue recovery; meeting requirements and directions set out by the AUC in recent decisions; and taking steps to modernize the structure of the ISO tariff and design of rates to prepare the ISO tariff for the transformation that is occurring on Alberta's grid.

To promote a more nimble approach through this evolution, the AESO has proposed to address changes to tariff provisions with the AUC using a modular approach as opposed to a comprehensive tariff filing. The AESO expects, as described in the AESO's 2018 ISO Tariff compliance filing, that a modular approach, "will allow issues to be considered and consulted upon with greater efficiency than the current approach of filing comprehensive tariff applications that bundle and address multiple significant issues within a single application, and will also allow the

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AESO to address required tariff changes in a more agile and adaptable manner in response to industry change."[1] As such, stakeholders will continue to see the AESO progress these activities as distinct pieces where practicable.

For each activity, the AESO plans to engage stakeholders in alignment with the *AESO Stakeholder Engagement Framework* (Framework) available on www.aeso.ca. Engagement activities on other tariff topics will be developed and defined, in line with the Framework, and communicated to industry to enable participation and engagement by interested parties.

The plan below outlines the 2020 and 2021 planned phases and anticipated stakeholder engagement, recognizing timelines may shift as activities progress and more information becomes available. Additional information including detailed timelines and engagement opportunities will be communicated as each activity progresses.

The AESO continues to work cross-functionally across the organization to ensure all AESO initiatives which are connected or interrelated with the ISO tariff are taken into account.

[1] Exhibit 25175-X0002.01, Amended 2018 ISO tariff compliance filing and update application, PDF 13

2020-2021 ISO Tariff-Related Activities Plan

Process description

The following provides a description of the process phases:

Analysis (A)

In the analysis phase, the AESO identifies issues resulting from internal analysis, stakeholder feedback, government policy or Commission directions. This phase is an internal phase for the AESO and there may be initiatives that have not yet progressed to the point of requiring stakeholder input. Such initiatives may not appear on the plan and may be added once initial analysis has been completed or an engagement decision has been reached. While in this phase, the AESO may research and define the issue, analyze the implemented solution in other jurisdictions, perform analytics, and seek out expert opinions to determine whether to move forward to the next phase.

Conception (C)

During the conception phase, the AESO will formalize the issue and conduct an options analysis. Input for the options analysis may be gathered through stakeholder engagement, and/or third-party studies. The AESO may develop recommendations and determine necessary stakeholder engagement.

Development (D)

During the development phase, the AESO works with stakeholders to create provisions for the ISO tariff or proposed ISO rules or changes to both. In accordance with AUC Rule 017, the proposed drafts of new or amended ISO rules are released to stakeholders for comment and those comments are considered in the development of a proposed ISO rule or Authoritative Documents (AD) for filing with the Commission.

Regulatory (R)

The regulatory phase begins with the filing of an application for approval of a revised ISO tariff or proposed ISO rule with the Commission, and typically concludes with the issuance of a decision on the application. It may also extend beyond an AUC decision if compliance filings or review and variance applications need to be addressed.

Implementation (I)

The implementation phase includes changes to information technology, business processes, and training.

Engagement (E)

The AESO will typically conduct stakeholder engagement during the Conception and the Development phases of all initiatives. Stakeholder engagement may include a range of approaches from “inform” to “collaborate” depending on the topic and issue being considered and the outcomes being sought.

The approach taken and the extent of activity for each phase will be uniquely dependent on each tariff-related initiative.

2020-2021 ISO Tariff-Related Activities Schedule

Classification	Tariff-Related Initiatives	2020 Q4			2021 Q1			2021 Q2			2021 Q3			2021 Q4		
		O	N	D	J	F	M	A	M	J	J	A	S	O	N	D
Tariff Modernization	**AESO Tariff Structure and Process Improvement** Determine ways to modernize the ISO tariff with the intent to simplify the tariff and regulatory process to enable more adaptability, clearer cost or price signals and regulatory efficiency to support the transformation of Alberta's electricity system	A	C	C	C	Implement as part of ongoing tariff applications										
	Bulk and Regional Rate Redesign (with Energy Storage) (Phase 1) Evaluate the bulk and regional rate design, with a focus on addressing issues caused by 12-CP; tariff treatment for energy storage is also included in this rate design initiative	D	D	D	D	D	D	R	R	R	R	R	R	R	R	R
	Customer Contribution Policy and POD Cost Function (Phase 2A) Evaluate directions provided by AUC Decision 22942 relating to Point of Delivery Cost Function and Optional facilities/good electricity industry practice (Phase 2A); Review of broader Customer Contribution Policy and ISO tariff investment objectives and potential changes			C	C	D	D	D	D	D	R	R	R	R	R	R
2018 ISO Tariff Implementation	**2018 ISO Tariff Compliance Filing and Implementation** Seek approval for the 2018 ISO Tariff compliance filing which will implement approved changes into the ISO tariff and provide updated 2020 rates	R	I	I	I											
	Transmission Interconnection Costs: Substation Fraction and DFO Flow-through Address 'unlimited liability' issue for DCG in ISO Tariff substation fraction methodology	R	R	R	R	R	I	I	I	I	I					
	Revise Section 505.2: Performance Criteria for Refund of GUOC Align ISO rule with 2018 GTA ISO tariff provisions	D	D	R	I											
	System versus Connection Project Criteria (Phase 2B) Respond to directions in AUC Decision 22942 regarding developing criteria for the initiation of system and connection projects and criteria for categorizing 'grey area' system projects	C	C	C	D	D	D	D	D	D	R	R	R	R	R	R
	Other Matters Arising from AUC Decision 22942 (Phase 3) Develop application to address remaining direction from AUC Decision 22942 relating to Power Factor Deficiency, Contract Level Adjustments, SAS Request Provisions and Relocation Costs					C	C	D	D	D	R	R	R	R	R	R
Tariff Implementation	**2021 ISO Tariff Update (2021 Rates)**	R	R	R	I	I	I									
	2020 Deferral Account Reconciliation									R	R	R	I	I		
	2022 ISO Tariff Update (2022 Rates)													R	R	R

Legend: Analysis (**A**), Conception (**C**), Development (**D**), Regulatory (**R**), Implementation **(I)**

ISO Tariff-Related Activities

ISO Tariff Structure and Process Improvement

The ISO tariff consists of the rates, and terms and conditions that apply to persons who receive system access service from the transmission system. The AESO submits a tariff update application to the Commission for approval each year to annually update rates, and has historically filed a new, comprehensive ISO tariff application every three to four years for changes to rate design and/or terms and conditions. This process and the structure of the ISO tariff has remained largely unchanged since deregulation of the electricity market in Alberta. The AESO's intent with the tariff structure and process improvement activity is to work with key internal and external stakeholders to identify opportunities to simplify and modularize the ISO tariff structure and approval process, with the objectives of: increasing the efficiency of the regulatory process; making the ISO tariff more accessible (simpler and easier to interpret); and making the tariff more adaptable to the ongoing transformation of Alberta's electricity system. Changes to the ISO tariff content and/or structure identified through this improvement activity are expected to be implemented through the on-going modular tariff filings, where the AESO will propose improvements that align or are associated with other changes being proposed, staring with AESO's phase 1, phase 2A and 2B, phase 3 tariff filings.

Bulk and Regional Rate Redesign (Including Energy Storage Consideration) (Phase 1)

The AESO is currently reviewing the efficiency of the current bulk and regional rate design, which recovers system costs from consumers, to ensure that the ISO tariff appropriately recovers the sunk costs of the current system and sends efficient price signals to guide investment and electricity consumption decisions. Specifically, the AESO is considering the monthly coincident (12-CP) bulk cost recovery methodology. The AESO has been engaging with stakeholders since early 2018 on Bulk and Regional Rates to understand and analyze the issue of recovering sunk transmission costs through the 12-CP mechanism.

The importance and urgency of this initiative continues to grow, as the AESO saw a decline in the 12-CP billing determinants and resulting cost recovery in 2019. This is evidence that customers respond to the current 12-CP pricing signal; however, as transmission costs have increased, this price signal has diverged from the value it creates for the system. This results in: 1) higher rates to customers that cannot respond to the signal and avoid the coincident peak; 2) an inefficient signal to reduce consumption, or develop on-site generation to self-supply, during the 12-CP hours without a significant reduction in costs; and 3) artificially increasing interest from distribution-connected generation (DCG) to maximize DCG credits provided by DFO tariffs.

The treatment of energy storage in the ISO tariff is also in scope for this activity, as the chosen path for treatment can have interactions with rates for system cost recovery.

Customer Contribution Policy and Point of Delivery (POD) Cost Function (Phase 2A)

In Decision 22942-D02-2019, the AUC directed the AESO to explore alternatives for the point of delivery cost function. As part of Phase 2A and incorporating any additional directions from the Local Interconnection Costs: Substation Fraction and DFO Flow-through process, the AESO will review its Customer Contribution Policy including the point of delivery cost function.

In Decision 22942-D02-2019, the AUC directed the AESO to conduct a thorough investigation of alternative approaches to the point of delivery cost function using installed capacity that should, at a minimum, incorporate the list of considerations developed by the Commission. The AESO will explore alternative approaches to the point of delivery cost function, with a focus on how to better represent the relationship between point of delivery costs and the variables that cause those costs to be incurred. Additionally, the AESO will initiate a higher level, holistic review of the ISO tariff customer contribution/investment policy given the significant challenges of the current methodology in the rapidly changing environment where connections to the transmission system are shifting away from the traditional one-way power flow to more dynamic two-way flows at many points of connection to the grid as a result of increasing DCG, self-supply, energy storage and microgeneration.

To a degree, the scope and timeline of this initiative is dependent on outcomes from the *Local Interconnection Costs: Substation Fraction and DFO Flow-through* issue discussed below.

2018 ISO Tariff Compliance Filing and Implementation (Proceeding 25175)

The AESO's 2018 comprehensive ISO tariff application (2018 GTA) proposed substantial changes to the terms and conditions, which were submitted by the AESO in response to a concern, raised by the AUC, that ratepayer costs were increasing due to the provision of inaccurate load and connection project timing information to the AESO. The AESO proposed changes to the terms and conditions to ensure that market participants are incented to provide accurate information to allow the AESO to plan and build the appropriate transmission infrastructure.

On September 22, 2019, the AUC issued Decision 22942-D02-2019, approving the AESO's 2018 ISO tariff subject to several compliance filing directions. On January 31, 2020, the AESO filed a compliance application with the AUC in response to, and to reflect, the findings, conclusions and directions of the AUC in Decision 22942-D02-2019. The AESO's compliance application, registered as Proceeding 25175, is currently being processed by the Commission, with the exception of the AESO's adjusted metering practice, the implementation of which will be addressed as part of AUC Proceeding 25848 described below.

Transmission Interconnection Costs: Substation Fraction and DFO Flow-through (Proceeding 25848)

Increasing volumes of DCG are bringing into question the appropriateness of the ISO tariff's local investment policy, including the AESO's substation fraction methodology, as well as the manner by which distribution facility owners (DFOs) have historically allocated the costs of connecting to the transmission system to their end-use customers.

These issues have been raised in three applications filed with the AUC requesting further review of certain Commission findings made in Decision 22942-D02-2019: (review and variance applications filed by each of the Community Generation Working Group (CGWG) (AUC Proceeding 25101) and FortisAlberta (AUC Proceeding 25102), and a complaint filed by BluEarth Renewables (AUC Proceeding 25058). As described in these applications, a concern of many stakeholders, including the AESO, is that the AESO's current substation fraction methodology and the DFO practice of flowing-through transmission connection costs to DCG leads to an unacceptable level of cost and investment uncertainty for DCG.

The AESO has been working with stakeholders towards resolution of the substation fraction and DFO flow-through issue since February 2020. The AESO held four technical sessions from February to June 2020 to facilitate discussion among different stakeholder groups, with the intent of developing a joint proposal for submission to the Commission. On July 27, 2020, the AESO filed a letter with the Commission in response to their direction to summarize the outcomes of these technical sessions, and to describe its proposed paths forward to resolve the issues discussed during the technical sessions. In this letter, the AESO clarified that before any substation fraction proposal is filed with the Commission, the Commission should address the threshold question of whether DFOs have discretion to limit the amount of substation fraction amounts flowed through to DCG. On September 2, 2020, the Commission issued a ruling that granted a review and advanced the FortisAlberta and CGWG applications to stage two for consideration as part of a new variance proceeding (AUC Proceeding 25848). The BluEarth proceeding remains on hold, pending the result of variance Proceeding 25848. The next stages of this initiative will be progressed through this proceeding.

Revise Section 505.2 of the ISO rules, Performance Criteria for Refund of Generating Unit Owner's Contribution (GUOC)

The AESO has determined that Section 505.2 of the ISO rules, *Performance Criteria for Refund of Generating Unit Owner's Contribution* (Section 505.2), will need to be revised to align with the approved ISO tariff changes. Additionally, to reduce regulatory burden, the AESO considers that Section 505.2 could potentially be revised to adopt a simpler and more efficient approach.

As part of its 2018 GTA, the AESO applied for approval to change the method used under the current ISO tariff to calculate the GUOC, the GUOC rate, and the terms for payment of the GUOC. Under the changes approved as part of Decision 22942-D02-2019, a GUOC would be calculated based on maximum capability rather than the associated Rate STS contract capacity, and corresponding changes need to be incorporated into the performance criteria for refund of GUOC.

The AESO has initiated consultation with stakeholders on the rule changes to Section 505.2. To enable the AESO to provide market participants with their GUOC refunds by February 28, 2021 as required by the ISO tariff, the changes to Section 505.2 will need to be implemented by January 31, 2021.

System versus Connection Project Criteria (Phase 2B)

The AESO's approach to the initiation of connection versus system transmission projects was examined in the 2018 GTA proceeding. The AUC directed the AESO to work with DFOs to explore and develop an objective set of criteria for the initiation of system transmission projects and to explore and provide a report on discussions of any criteria the AESO would propose for determining "grey area" system projects, including system versus connection project criteria. This activity will explore these directions to develop a report to file with the AUC.

Other 2018 GTA Directions (Phase 3)

The remaining directions from the AUC's Decision 22942-D02-2019 will be addressed in Phase 3 of the AESO's tariff filing. These directions relate to the following:

- **Power factor deficiency charges (directions 3 & 4):** A site's power factor deficiency calculation does not consider the MVA/MW differences as a site transitions from supplying electricity to consuming electricity. The resulting inaccuracy could potentially be resolved if the AESO determined power factor charges based on MVA. Additionally, the $400/MVA is likely underpricing the cost of voltage support required for sites that have a power factor less than 90%. The AESO had applied for an increase to $1,200/MVA but the increase was denied by the AUC in Decision 22942-D02-2019.

- **Contract level adjustment provisions (directions 9 & 10):** The AUC has requested that the AESO review how the new contract level adjustment provisions are working for the AESO and market participants, and to report back to the AUC on the findings. This direction will require opportunities to use the new provision and work with stakeholders, which could impact timing of filing

- **System access service request provisions (direction 11):** The AUC has requested that the AESO review how the new provision relating to submission of critical information is working for the AESO and market participants, and to report back to the AUC on the findings. This direction will require opportunities to use the new provision and work with stakeholders, which could impact timing of filing.

- **Relocation principles (direction 20):** The AUC has requested a review of the 2003 relocation principles (page 18 of Decision 2003-043) to address their continued reasonableness.

Deferral Account Reconciliation

The Deferral Account Reconciliation (DAR) is an annual process to reconcile revenue collected through the ISO tariff with costs paid in prior years. As the AESO cannot carry a profit or a loss, this process ensures any adjustments to costs and revenues from prior years are recovered or refunded as per the ISO tariff. The AESO strives to complete this process and file by the end of Q2 each year.

ISO Tariff Rate Updates

To set annual rates as accurately as possible and minimize DAR balances, the AESO will file an annual rate update application to reflect the most recent wires costs, AESO own costs and forecast billing determinants. The standardized process to calculate rates for the upcoming year involves updating inputs to the rates (which includes currently approved TFO wires costs, AESO board-approved budget amounts and ancillary service cost amounts) and developing a current forecast for billing determinants. This process is done annually, with rates for the upcoming year filed in Q4 to take effect in the upcoming year.