

# AESO 2018 Tariff

PROPOSED REFUNDING OF DFO CUSTOMER CONTRIBUTIONS

MARCH 5, 2018



# DFO Customer Contribution Issue

- **Context:**
  - Under the Alberta Electric System Operator's tariff, the regulated Distribution Facility Owner may be required to make a contribution, associated with requested construction of transmission facilities. The contribution from the Distribution Facility Owner is treated as an offset to the Transmission Facility Owner's rate base. Proposal only pertains to contributions made by the regulated DFO, and not an industrial or other customer behind the DFO.
- **The issue: This customer contribution approach for transmission capital investments creates a situation that:**
  1. Provides the regulated Distribution Facility Owner, rather than the regulated Transmission Facility Owner, with a regulated return on transmission assets that it does not build, own, operate or maintain;
  2. Results in the Transmission Facility Owner incurring all the risk associated with building, owning, operating and maintaining the transmission assets without any return to compensate for those business risks; and
  3. Fails to provide clear price signals concerning regulated Distribution Facility Owner investment decisions in regulated transmission related assets.

# DFO Customer Contribution Issue

## The EUA defines transmission assets is defined as

- (bbb) “transmission facility” means an arrangement of conductors and transformation equipment that transmits electricity from the high voltage terminal of the generation transformer to the low voltage terminal of the step down transformer operating phase to phase at a nominal high voltage level of more than 25 000 volts to a nominal low voltage level of 25 000 volts or less, and includes
  - (i) transmission lines energized in excess of 25 000 volts,
  - (ii) insulating and supporting structures,
  - (iii) substations, transformers and switchgear,
  - (iv) operational, telecommunication and control devices,
  - (v) all property of any kind used for the purpose of, or in connection with, the operation of the transmission facility, including all equipment in a substation used to transmit electric energy from
    - (A) the low voltage terminal,
    - (B) electric distribution system lines that exit the substation and are energized at 25 000 volts or less,

and

- (vi) connections with electric systems in jurisdictions bordering Alberta, but does not include a generating unit or an electric distribution system;

# Proposal

- **Regulated Transmission Assets**
  - The regulated Transmission Facility Owner should make the capital investment in all regulated Distribution Facility Owner related transmission assets.
  - The ensuing charges associated with such investment in DFO driven transmission will be charged to the DFO via the Alberta Electric System Operator.
  - The DFO will pass such charges to its distribution customers.
  - Alberta transmission customers are held whole as are the DFO's distribution customers.

# Mechanics of Refunding of DFO Customer Contributions

## **DFO Customer Contribution - Mechanics:**

1. Proposal only pertains to contributions made by the regulated DFO, and not an industrial or other customer behind the DFO.
2. DFO provides upfront contribution to the TFO as per the AESO policy.
3. Upon energization TFO refunds the DFO contribution back to the AESO.
4. TFO includes the revenue requirement related to these new assets in its monthly AESO billing.
5. AESO charges the DFO monthly for the TFO revenue requirement related to the DFO contribution refund and the AESO uses this revenue to offset the TFO tariff increase related to the DFO contribution refund.
6. DFO will then flow through this AESO monthly charge directly to its customers. DFO customers are kept whole by this new arrangement over the life of the assets.

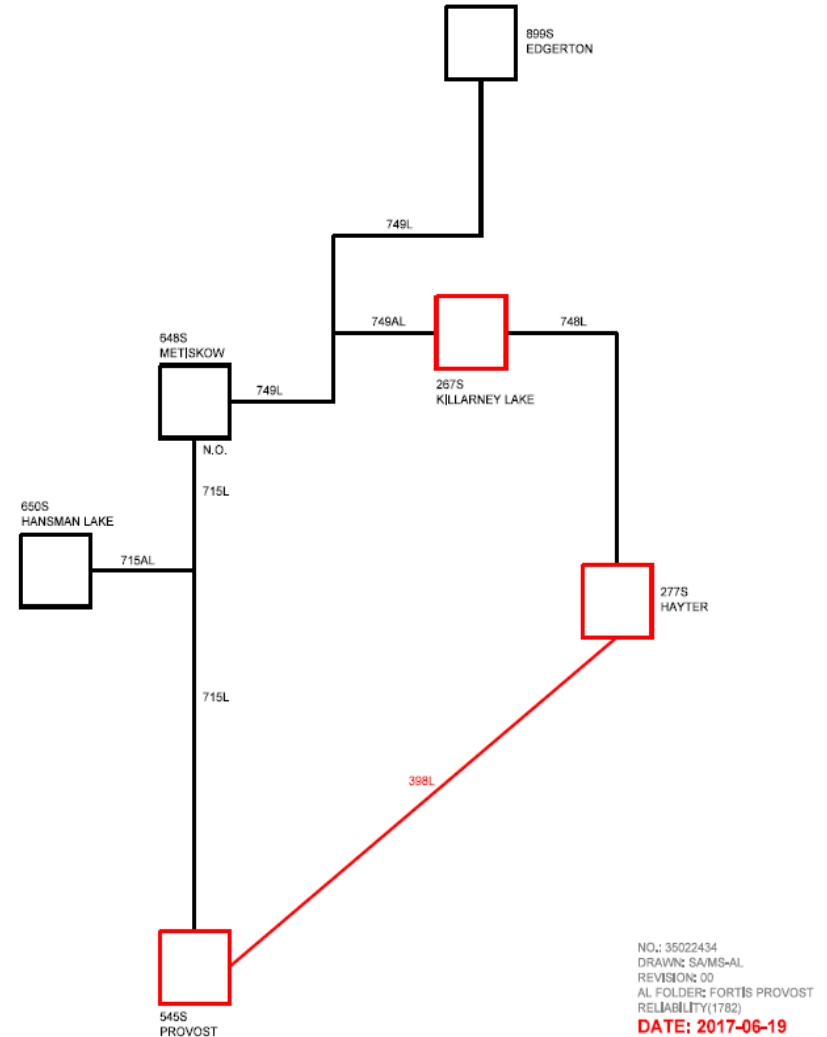
# Example – DFO Customer NID: Provost to Hayter

## Provost Customer NID - history

- On May 21, 2010, the AESO submitted the Central East Area Development Need Identification Document to the AUC for approval. The NID approval included (among other things) the following scope:

### Provost scope

- b. Build a new single circuit 138-kV transmission line from Provost 545S substation (13-7-39-2-W4) to Hayter 277S substation (1-17-41-1-W4) using one 795 kcmil ACSR conductor per phase. (Plus Killarney Lake sub.)
- The AESO has applied to amend and cancel the CETD including Provost project pending further study. To date this portion of the approved NID has not been cancelled.
- On February 13, 2018, the AESO submitted a Customer Project NID for the Transmission Enhancements in the Municipal Districts of Provost (and Wainwright). The Enhancements include:
  - Same scope as per 2010
- The Application is currently under consideration by the AUC. Cost of the Project is estimated at \$41.9M
- AESO Tariff/investment: 100% Contribution by DFO customer



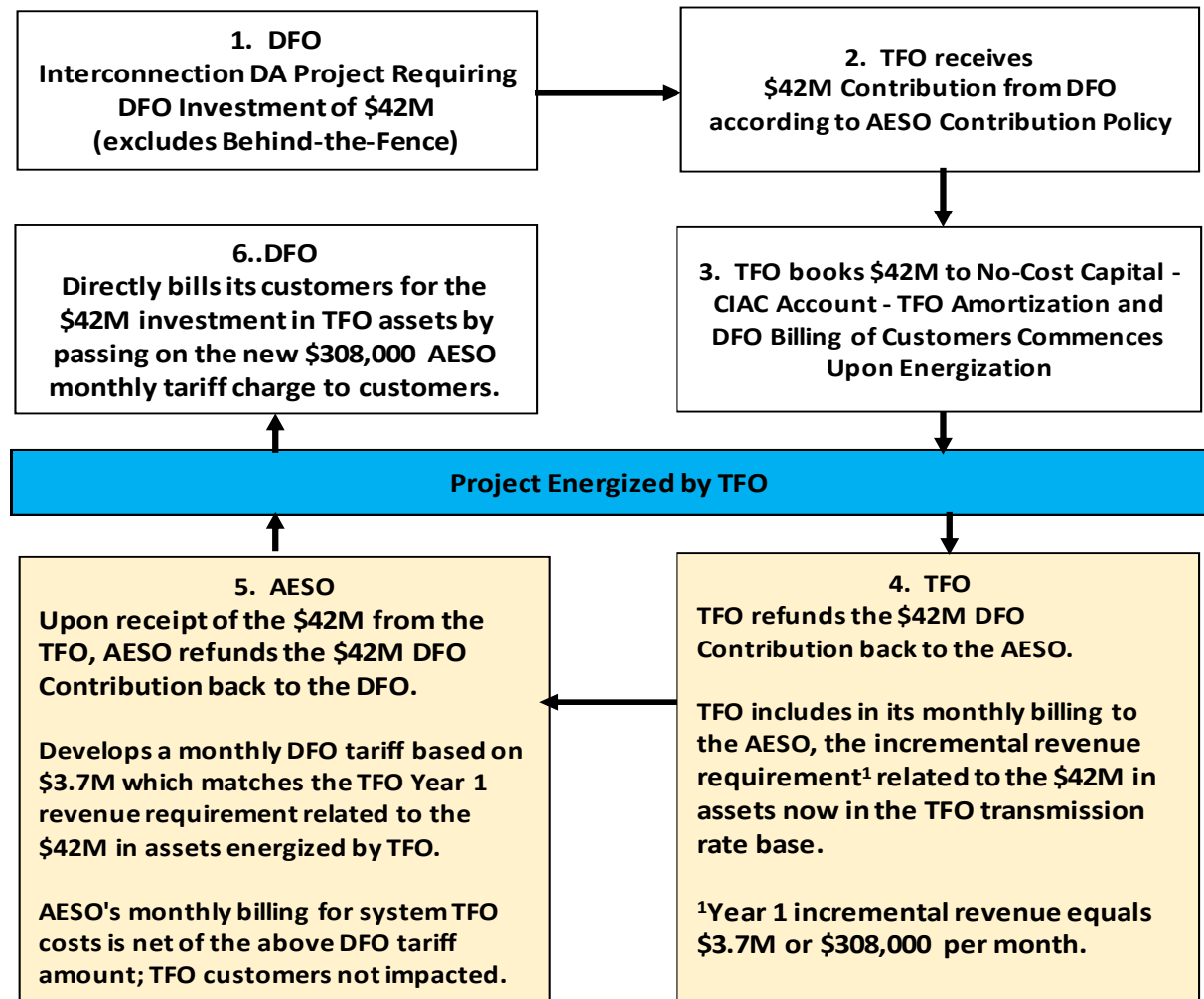
# Refunding of DFO Customer Contributions - Financial Flows and Impacts - Using Fortis Provost based on \$42M Refund in Year 1 (\$M)

Provost (DFO customer) project:  
138kV  
\$42M  
100% contributed

AESO monthly charge to DFO based on TFO's approved:

- Capital structure
  - Debt and Equity
- ROE
- Embedded Debt rate
- Depreciation rate(s)
- Income Tax rates/parameters

Each eligible DFO project would be tracked separately



# Administration – Simple Process

## Proposed Approach

- 2018 AESO Tariff (Section 4) would require modification to:
  - Reflect the TFO refunding the DFO contribution back to the DFO (once project is energized) via the AESO.
  - As well, to provide the monthly invoicing to the DFO regarding the specific project(s) that would be ultimately recovered from its customers.
- In order to assist the AESO, the TFO could provide the AESO (and DFO) with the specific monthly billing calculations (based on the AUC approved TFO tariff components) that would support the calculations and be used to invoice the DFO.
- AltaLink is open to other suggestions with respect to administrative efficiency.



# Distribution Facility Owner (DFO) Customer Contributions Summary

Refunding DFO Customer Contributions for Direct Assigned Transmission related Capital Investments:

- Consistent with AUC Ruling and AESO submission that refunding customer contributions should be addressed in the context of an ISO tariff and not in a single TFO GTA, and also consistent with AUC and AESO concerns that it should apply to all DFOs and all TFOs.
- Simply put....It is the regulated TFO that owns and maintains the interconnection transmission asset and therefore should be allowed to make the investment in those assets and not the regulated DFO.
- This proposal does not impact the TFO's system tariff charged to transmission rate payers since the additional revenue requirement, based on the TFO's Weighted Average Cost of Capital (etc.), is recovered from the DFO by the AESO.
- Efficiency of market price signals maintained in the construction and energization of new transmission related assets since DFO customers, like industrial customers, directly pay for the additional TFO assets.
- Administratively simple to employ