

March 29, 2017

To: Parties currently registered on Proceeding 20922

### **Alberta Utilities Commission**

## **Commission-Initiated Proceeding to Address the Customer Advancement Cost Component of the Alberta Electric System Operator's Tariff Proceeding 20922**

### **Issues list and closure of Proceeding 20922**

1. On August 26, 2015, the Alberta Utilities Commission issued Decision 3473-D02-2015,<sup>1</sup> which rendered a decision with respect to Module 2 of Proceeding 3473.<sup>2</sup> Module 2 was initiated to consider compliance with directions 5 through 8 from Decision 2014-242<sup>3</sup> of the Alberta Electric System Operator's (AESO's) 2014 Independent System Operator (ISO) tariff. In its decision, the Commission determined that:

46. Notwithstanding, the submissions provided in this proceeding have identified a need to address the issue of customer advancement costs as related to the adjustment of ISDs [in-service dates] on a broader basis, not just in the context of projects with characteristics similar to the Salt Creek to Black Fly/NE Loop project. The Commission intends to do so through its own initiated proceeding pursuant to Section 8(2) of the *Alberta Utilities Commission Act*.<sup>4</sup>

2. On October 22, 2015, the Commission issued Bulletin 2015-15<sup>5</sup> regarding a Commission-Initiated proceeding to address the customer advancement cost component of the AESO tariff and created Proceeding 20922 to address whether and how customer advancement costs can be used to ensure that future development of transmission projects is achieved in both a timely and an economic manner.

3. The Commission pre-registered all parties who were a part of Proceeding 3473, the AESO's compliance filing to its 2014 ISO tariff application, to Proceeding 20922. All other affected parties were requested to register to participate in the proceeding by no later than November 12, 2015. No other parties registered to participate.

4. The Commission indicated in the bulletin that, following the November 12, 2015 registration date, it anticipated it would invite legal representatives to attend a meeting with Commission staff and counsel to discuss the process to conduct this proceeding.

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<sup>1</sup> Decision 3473-D02-2015: Alberta Electric System Operator, Compliance with Directions 5 through 8 from Decision 2014-242, Module 2, Proceeding 3473, Application 1610935-1, August 26, 2015.

<sup>2</sup> Proceeding 3473, Alberta Electric System Operator 2014 ISO Tariff Compliance to Decision 2014-242.

<sup>3</sup> Decision 2014-242: Alberta Electric System Operator, 2014 ISO Tariff Application and 2013 ISO Tariff Update, Proceeding 2718, Application 1609765-1, August 21, 2014.

<sup>4</sup> Decision 3473-D02-2015, paragraph 46.

<sup>5</sup> Exhibit 20922-X0021.

5. However, following the release of Bulletin 2015-15, additional evidence was filed by parties in various Commission proceedings that had substantial overlap with the issues to be addressed in this proceeding. Therefore, after the Commission had conducted its internal review of the issues identified in Proceeding 20922, it determined that the matters were broader than initially contemplated. Consequently, the Commission has determined that matters anticipated to be addressed within Proceeding 20922 should instead be considered as part of a comprehensive tariff application. The Commission will, therefore, close this proceeding.

6. The Commission has attached as Appendix 1 to this letter, an issues list to assist the AESO and stakeholders with the development and exploration of these issues as part of the AESO's forthcoming 2018 ISO tariff application.

Sincerely yours,

Salma Karim  
Application Officer

Attachment – Appendix 1

## Appendix 1 – Issues List

### Introduction and background

1. Proceeding 20922<sup>1</sup> was established to examine the manner in which customer advancement costs are incorporated into the Independent System Operator (ISO) tariff. The motivation for this inquiry originated in Proceeding 2718<sup>2</sup> in which the Alberta Utilities Commission considered proposals by the Alberta Electric System Operator (AESO) that would remove certain portions of the terms and conditions from the ISO tariff. Specifically, the proposed changes related to the definition of participant-related costs located at Section 8:3(2)(1) of the tariff.<sup>3</sup> In examining the AESO's proposal to remove this section, and the AESO's response to directions in Decision 3473-D02-2015,<sup>4</sup> the Commission recognized that the manner in which customer advancement costs are managed under the ISO tariff can significantly influence the development of transmission projects.<sup>5</sup> Accordingly, the Commission established Proceeding 20922 and issued Bulletin 2015-15<sup>6</sup> on October 22, 2015, in order to consider this issue.

2. As the Commission conducted an internal review of the scope of issues that might be pursued in Proceeding 20922, it became apparent how several ISO tariff provisions,<sup>7</sup> not simply Section 8:3(2)(1), interacted to influence the costs of transmission development in Alberta. Because of this interaction, the Commission has determined that a broader examination of the incentives induced by the design of the ISO tariff should be addressed as part of the AESO's next ISO tariff application.

3. In order to present a manageable set of issues, the Commission considers it may be helpful to parties if certain scope issues are communicated to market participants in advance of the submission of the ISO's tariff application. The scope issues include consideration of issues that arose out of Proceeding 20922 and also incorporate issues that were raised in subsequent proceedings, since Proceeding 20922 was initiated.<sup>8</sup> However, parties are not limited or

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<sup>1</sup> Proceeding 20922, Commission-initiated proceeding to address the customer advancement cost component of the Alberta Electric System Operator's tariff.

<sup>2</sup> Proceeding 2718, AESO 2014 ISO tariff application and 2013 ISO tariff update.

<sup>3</sup> In Proceeding 2718 the AESO proposed to delete ISO tariff Section 8, subsection 3(2)(1) of the ISO tariff that deals with the advancement of transmission facilities to reflect the AESO's operational practice regarding advancement costs.

<sup>4</sup> Decision 3473-D02-2015: Alberta Electric System Operator, Compliance with Directions 5 through 8 from Decision 2014-242, Module 2, Proceeding 3473, Application 1610935-1, August 26, 2015.

<sup>5</sup> The Commission wished to examine who should bear the incremental transmission project costs related to the advancement of in-service dates.

<sup>6</sup> Bulletin 2015-15, Commission-Initiated proceeding to address the customer advancement cost component of the Alberta Electric System Operator's tariff.

<sup>7</sup> The AESO tariff can also influence other factors such as the information provided to the AESO to assist it with its long-term planning requirements, information relied on to establish in-service dates, AESO tariff construction contribution policy, costs being classified as either participant-related or system-related, all these factors, in addition to advancement costs, can have a significant impact on the final project costs for transmission projects.

<sup>8</sup> The subsequent proceedings include: Proceeding 3524, AltaLink Management Ltd. 2015-2016 general tariff application (GTA); Proceeding 20272, ATCO Electric Transmission 2015-2017 GTA; Proceeding 3585, AltaLink 2012 and 2013 deferral account reconciliation, Transcript, Volume 10, pages 1824-1826.

constrained in any way from submitting evidence on the issues identified below or on any other issues of significance to the operation and construction of the ISO tariff.

### **Issue 1 – legislative framework**

4. Because of the nature of the energy market in Alberta, Alberta’s electricity legislation has identified that planning for an uncongested transmission system is a key responsibility that should be allocated to the AESO. For example, sections 15(1)(e) and (f) of the *Transmission Regulation* provide direction on the allowed degree of congestion, while Section 33 of the *Electric Utilities Act* establishes the duty of the AESO to forecast the needs of Alberta and to develop plans for the transmission system reflecting the AESO's forecast of such needs, while Section 17 requires the AESO to assess the current and future needs of market participants and plan the transmission system to meet those needs as well as to make arrangements for the expansion of and enhancement to the transmission system. Section 8 of the *Transmission Regulation* requires the AESO to consider both future load growth and anticipated generation additions for the purposes of developing its transmission system plans.

5. One interpretation of sections 15(1)(e) and (f) and Section 8(a) of the *Transmission Regulation* is that the AESO is required to ensure that it plans and arranges transmission system expansions or upgrades, in a manner that assures that any and all forecast firm load additions can be accommodated by the date requested.<sup>9</sup> However, it is also possible to interpret Section 8 and Section 15 provisions as establishing different targets, one to be met for construction of transmission to serve generation (Section 15 – without constraint) and another to serve forecast load (Section 8 – available in a timely manner). Because these planning restrictions affect the ability of the AESO to set and alter in-service dates, which in turn could affect the cost of achieving its congestion and planning mandates, the Commission is interested in parties exploring whether or not it is possible, desirable or feasible for the AESO to apply the less restrictive interpretation of these provisions.<sup>10</sup>

### **Issue 2 – advanced system-related classification of radial transmission projects**

6. Presently, non-radial or looped transmission facilities are defined as transmission facilities that increase the number of electrical paths between any two substations, excluding the substation serving the market participant, and excluding any new radial transmission line.<sup>11</sup> However, in accordance with Section 8:3(3)(b) of the ISO tariff terms and conditions, some radial connection projects, those scheduled to be looped within five years of commercial operation as part of a critical transmission development or regional transmission system project, can be classified by the AESO as system-related for the purposes of determining the market participant's contribution.

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<sup>9</sup> In-service date.

<sup>10</sup> For additional background, see Decision 3473-D02-2015 at paragraph 131 through 138.

<sup>11</sup> The Commission’s predecessor, the Alberta Energy and Utilities Board (EUB), in Decision 2001-6: ESBI Alberta Ltd., 2001 General Rate Application, Part D: Customer Contribution Policy, Application 2000135, File 1804-1, February 2, 2001, decided upon a fundamental classification framework whereby the determination of whether a new transmission connection project was customer-related (now “participant-related”) or system-related was based on whether the new lines and related facilities were “radial” to the transmission system already in existence, or alternately, “non-radial” (often also referred to as “looped”).

7. The determination that radial facilities should be classified as system-related will clearly influence the distribution of transmission project costs and risks across market participants. This is because, if the total of all costs classified as participant-related for a specific connection facility project exceeds the applicable maximum investment allowance, the market participant is required to pay the transmission facility owner (TFO) for any excess amount. Whereas, the responsibility for costs classified as system-related plus the local investment amount are recovered under the tariff and charged to all customers under a postage stamp rate. That is, the market participant does not pay any customer contribution on those amounts. Consequently, if a market participant is able to have its radial facility classified as system-related, that market participant avoids paying any customer contribution.

8. The in-advance system-related classification in Section 8:3(3)(b) also influences the distribution of costs related to developing and maintaining a transmission system because it can affect the magnitude and timing of entry into the transmission system by load customers.<sup>12</sup> In addition, a system-related classification of transmission facility costs triggered by a connection project, offsets the cost a market participant pays to connect. As a result, a connecting market participant may have an incentive to overstate its long-term requirements, since it will not bear the full costs of such a decision. If this occurs, then the AESO could be incorporating inaccurate forecast information into its long-term plan for required transmission facilities.

9. As a result of the incentive effects and cost implications associated with the AESO's tariff classification of system-related costs, the Commission would like parties to address whether Section 8:3(3)(b) from the AESO's tariff should become more restrictive in terms of which transmission projects, if any, should receive in-advance system classification. The Commission also would like parties to address how the current AESO tariff practice of advancement cost designation could be improved to address the balance between the preferences for certainty among one set of market participants and the desire to minimize the cost of transmission development among another set of market participants.

### **Issue 3 – load forecasting**

10. Intervener evidence filed by the Alberta Direct Connect Consumers Association, Industrial Power Consumers Association of Alberta and the Consumers Coalition of Alberta jointly as members of the Ratepayer Group in recent TFO GTA proceedings<sup>13</sup> expressed concern that the AESO's forecasts of Alberta Interconnected Electric System (AIES) energy increases have consistently been in excess of the actual increase in load that has occurred.<sup>14</sup>

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<sup>12</sup> A fundamental design consideration of the AESO tariff construction contribution policy is that it is meant to encourage economic connections to the transmission system in order to facilitate the sharing of transmission system costs over an expanded customer base. Another fundamental design consideration is cost causation, such that, the tariff should classify costs, including advancement costs, as system-related costs or participant-related costs to ensure that a price signal is provided to new customers that produces an efficient result.

<sup>13</sup> Proceeding 3524, AltaLink Management Ltd. 2015-2016 GTA; and Proceeding 20272, ATCO Electric Transmission 2015-2017 GTA.

<sup>14</sup> The AESO forecast cumulative average growth rates (CAGR) of AIES energy for five- and 10-year forward periods ranged between 3.28 per cent to 5.15 per cent and was well above the actual CAGRs of AIES energy for the 2005-2014 period of 1.32 per cent.

11. Because the information used by the AESO for transmission system planning and development decisions currently relies on information provided by the large industrial customer group, the forecast inaccuracy identified by interveners could be related to the incentives built-in to the provision of information to the AESO.
12. From an overall system perspective, there is a financial incentive for existing customers to encourage new load growth, because the burden of the embedded fixed transmission cost is reduced, as it is spread over a larger customer base. However, from an individual customer's perspective, if it can avoid any cost-related consequences that may result from providing forecast load information to the AESO, then there appears to be no financial reason for them to be accurate, or conservative when providing this information.
13. The Commission is interested in receiving evidence on how to address these incentive issues. For example, is it advisable to change or enhance the forecast methodology; change the ISO tariff provisions regarding system-related costs, local investment, customer contribution or participant-related costs; or introduce a target rate of load growth?
14. If a target could be established, would it then be possible to devise provisions in the ISO tariff that would allow certain market participants who desire load connections more quickly than planned to do so only if there is no net cost to other market participants?