

# **AESO BOARD DECISION 2018-BRP-001**

## **Amended 2018 General and Administrative Budget**

**April 26, 2018**

## 1. Introduction

The following information documents the Alberta Electric System Operator (“AESO”) Board Decision (“Decision”) on AESO Management’s request to amend its 2018 general and administrative budget to continue to fund the key business initiatives for 2018. This Decision should be read in conjunction with the *2018 Amended General and Administrative Budget Information* presentation and comments from stakeholders who participated in the amendment process (“Stakeholders”) and AESO Management’s responses to those comments, both of which are available on the AESO’s website at <http://www.aeso.ca>.

AESO Management’s request was that the AESO Board approve an amendment to the June 2017 AESO Board Decision 2017-2018-BRP-01 (“June Decision”), being the AESO’s 2018 approved general and administrative budget of \$99.3 million to an amended 2018 AESO general and administrative budget of \$111.1 million, as follows:

Budget/Forecast Category	Revenue Source (\$ million)				
	Trans- mission	Energy Market	Renew- ables	Load Settlement	Total
General and Administrative	75.3	28.2	6.4	1.2	111.1

The *Transmission Regulation*<sup>1</sup> (“T-Reg”) includes provisions addressing the process for consultation and approval of the AESO budget for general and administrative, interest, amortization, other industry and capital (collectively referred to as “Own Costs”), as well as forecasts for transmission line losses and ancillary services costs. The T-Reg provides that the AESO must consult with Stakeholders likely to be directly affected by these proposed costs. It also provides that Own Costs, once approved by the AESO Board, are considered as prudent by the Alberta Utilities Commission (“AUC”) unless an interested person satisfies the AUC that such costs are not prudent. Transmission line losses costs and ancillary services costs, once approved by the AESO Board, are also deemed to be prudent by the AUC. Subsequent to the Decision, a Stakeholder may dispute that Decision pursuant to the Dispute Resolution provisions of the ISO Rules.

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<sup>1</sup> AR 86/2007

## 2. Process

The practice established by the AESO to conduct consultation on these costs is the Budget Review Process (“BRP”). The BRP is an open and transparent process which facilitates a business initiative and cost review with Stakeholders. Consistent with prior years, a recommendation on the AESO’s business initiatives, budgeted own costs, and forecasted transmission line losses and ancillary services costs was prepared by AESO Management and outlined in the AESO’s 2017-2018 Business Plan and Budget Proposal (“2017-2018 Business Plan”). This information is provided to the AESO Board for review and approval, or to be amended and approved, as appropriate. In June 2017, the AESO Board approved the AESO’s 2017-2018 Business Plan in the June Decision.

The BRP was designed in a manner that, should an amendment be required to an AESO Board approved general and administrative budget and if the proposed amendment is greater than 10 per cent of the original AESO Board approved budget, the process requires an abbreviated BRP be implemented and Stakeholders be consulted prior to AESO Board approval. As the proposed amendment was greater than 10 per cent in this case, an abbreviated BRP process was conducted by AESO Management which included a presentation to Stakeholders (consultation meeting). The following are the abbreviated BRP process steps:

1. Stakeholder notification;
2. Presentation to Stakeholders (consultation meeting);
3. Receive Stakeholder comments;
4. AESO Management replies to Stakeholder comments; and
5. AESO Board Decision.

The abbreviated BRP was open to all Stakeholders and has been transparent having all presentation materials, Stakeholder comments and AESO responses posted on the AESO’s website. There were 8 Stakeholders who participated in the process and had an opportunity to provide input.

### 3. Proposed Amended Budget

The 2017-2018 Business Plan included the AESO's 2017 and 2018 business initiatives and related budgets for general and administrative, interest costs, amortization, capital and 2018 other industry costs, as well as the forecasts for transmission line losses and ancillary services costs. The AESO's approved general and administrative budgeted costs focus on the delivery of key business initiatives that tend to be multi-year in nature. The key business initiatives for 2018 identified in the 2017-2018 Business Plan are:

- Capacity Market ("Capacity Market") design and implementation;
- Renewable Electricity Program ("Renewables") designs and implementations; and
- Critical Infrastructure Protection ("CIP") implementation and sustainment.

As part of the annual planning process for 2018, in early 2017 AESO Management conducted an extensive and iterative review of the AESO's respective key business initiatives and corresponding general and administrative costs to deliver on those initiatives. Based on this review, AESO Management recommended and the AESO Board approved the AESO's 2018 Board approved general and administrative budgeted costs of \$99.3 million. The development of the approved 2018 general and administrative budget was based on existing information when the budget was developed in early 2017. As the work related to the key business initiatives progressed through 2017, a more informed and detailed understanding of these deliverables has occurred.

Specifically, the Capacity Market design is more complex than anticipated based on the Design Stream Work Group activities and the development of variations of the "Straw Alberta Market". When the AESO developed its budgeted costs for 2018, it was very early in the design process for the Capacity Market (Stakeholder consultation had just begun) and it was understood that the budgeting of these costs was done with a certain level of uncertainty. With respect to Renewables, the planned deliverables have increased considerably as the 2017-2018 Business Plan contemplated one Renewable procurement in 2018 whereas there are now expected to be two or possibly three additional procurements in 2018 which are to be developed and implemented in 2018 based on current government direction received. Lastly, the sustainment of CIP is significantly more involved and costly than was known prior to implementation. For 2018, the CIP and related cyber security programs will advance increased protections and efficiencies will be realized based on the review of business processes and the implementation of additional tools.

As a result, AESO Management has determined that additional resources, staff and contractor and consulting services, will be required in 2018 to successfully advance these key business initiatives while continuing to deliver on the AESO's core business operations. In addition, AESO Management has

included a proposed staff salary adjustment, excluding executive management, of 1.4 per cent (\$1.0 million) for 2018. The amount was reduced from an original proposed 2 per cent (\$1.4 million) staff salary adjustment, after further review of the adjustment by AESO Management. This resulted in the AESO's amended general and administrative budget for 2018 being reduced to \$111.1 million from the originally proposed budget of \$111.5 which was presented to stakeholders as part of the BRP. The remaining general and administrative costs for administration, facilities, computer services and maintenance and telecommunications have not been amended from the original approved 2018 general and administrative budget. Tables 1 and 2 contain summaries of the proposed amendments.

**Table 1 – General and Administrative Budget Amendment**

(\$ million)	2018 Amended	2018 Budget	Variance
Staff	72.1	66.9	5.2
Contract Services and Consultants	15.3	8.8	6.5
Administrative	3.9	3.9	-
Facilities	7.4	7.4	-
Computer Services and Maintenance	11.0	11.0	-
Telecommunications	1.3	1.3	-
<b>General and Administrative Costs</b>	<b>111.1</b>	<b>99.3</b>	<b>11.8</b>

*Differences are due to rounding*

**Table 2 – General and Administrative Budget Amendments by Key Deliverable**

(\$ million)	2018 Amendments
Capacity Markets	5.1
Renewables	3.1
CIP and Cyber Security	2.0
Other	0.5
Proposed Salary Adjustment (non-exec)	1.0
<b>Total Change</b>	<b>11.8</b>

*Differences are due to rounding*

#### 4. AESO Board Decision

The AESO Board has reviewed AESO Management's proposed amended 2018 general and administrative budget, the cost details, the Stakeholder comments and the associated responses from AESO Management. On balance, having regard for comments provided by Stakeholders and its own assessment, the AESO Board finds the AESO's proposed amended 2018 general and administrative budget as identified in Tables 1 and 2, on page 5 of this Decision, to be reasonable and are hereby approved. Therefore, the AESO Board approves as reasonable the 2018 general and administrative budget amendment of \$11.8 million, resulting in an amended general and administrative budget total of \$111.1 million for 2018 as a result of this approval. The AESO Board acknowledges AESO Management's efforts to review its existing resources to accommodate the incremental activities and minimize overall budget impacts to market participants.

The AESO Board acknowledges that from time to time due to uncertainty that can impact the AESO's planned initiatives, or unplanned initiatives as they arise, the AESO's budget as approved by the AESO Board may need to be revised for additional resource requirements to accommodate the uncertainty. Although, currently not anticipated, if in the future an additional budget revision is required for 2018, the AESO is committed to follow its established BRP consultation process. The AESO will notify Stakeholders of any proposed consultation should the need arise. In closing, the AESO Board would like to highlight its appreciation to Stakeholders for their valued contributions and participation in the BRP and commends Management for its efforts to inform Stakeholders and to seek their input on the Business Plan.

The AESO Board welcomes any comments from interested parties on improvements to the BRP and has requested that AESO Management continue its discussions with Stakeholders toward ongoing process improvement.

Signed at Calgary, Alberta on April 26, 2018

For the AESO Board,



Linda Chamber  
AESO Board Chair