OptionD

Priorities

- Design tariffs in the context of an evolving electricity system:
  - Increasing share of distributed generation including intermittent renewables
  - Increased potential for creation of microgrids as an economic bypass option
  - Capturing the integrating value of digital technology for two way flows
- Grid connection has value due to serving as conduit for energy exchanges and digital coordination; a fixed customer charge may be warranted in order to capture this value
- Encourage efficient use of the system based on planning of the system and long run marginal costs
- Eliminate price signals that may promote cost avoidance rather than future cost reduction
- Mitigate rate shock arising from restructuring via transitional credit

Tariff design Objectives

- **Reflect Cost Causation in the design of demand charges**
  - Consider long run incremental costs (proxy for marginal cost) in designing demand charges
- **Recognize there is a limited role for load signals based on a system peak. Incremental investment is driven primarily by generation; constraints are location dependent and will vary over time.**
  - Use of un-ratcheted monthly NCP to replace current CP
  - Eliminate distinction between bulk and regional costs
- **Ensure Cost recovery**
  - All bulk and regional costs not recovered by way of demand charges to be recovered by way of a declining block customer charge based on billing capacity

Tariff Design Objectives

- **Rate Mitigation**
  - Rate mitigation specifically to mitigate rate shock from restructuring, should be considered
  - Rate mitigation in view of poor economy is the responsibility of Govt., not rate making
  - Undue subsidies in the form of load retention rates to industry in transition may result in distorted economic price signals
  - Apply a transitional credit against fixed customer charges such that future customer bills corresponding to a historical base level billing capacity and costs ($/MW of billing capacity) would be capped at no more than 10% of the customer's previous average (3 yr. av. as base) bulk and regional costs, in year 1
  - The transitional credit would ensure load customers seeing increases due to restructuring are shielded from rate shock-the amount of shielding would go down to 80% in year 2, 60% year 3, 40% year 4, 20% year 5 and 0 year 6
  - Transitional credit to be calculated on the difference in total bill for a given billing capacity in $/MW and a credit rider applied to the customer charge at each POD on a per MW of billing capacity basis

Tariff Design Objectives

- **Facilitate load additions and Minimize Load Defections**
  - Declining block design for customer charge to incent additions to billing capacity at the margin
  - Transitional credit on $/MW of billing capacity against customer charge to shield existing customers from rate shock
- **Enhance Flexibility**
  - An un-ratcheted monthly NCP demand charge based on LRIC maximizes flexibility of use

Alternative D:
Network on un-ratcheted NCP; customer charge

Proposed Charges (Conceptual)

Demand charge:

Monthly un-ratcheted customer NCP demand charge	• MW = customer's peak monthly demand (NCP demand; un-ratcheted) • Establish demand charge having regard to the long-run incremental cost of transmission ($/MW) as well as other rate design considerations such as rate shock, after shielding ends

Customer charge:

Base a fixed charge on the difference between total bulk and regional costs net of recoveries via demand charge	• Customer charge would be a declining block charge. Design of declining blocks to take into consideration:
	  • Cost of incremental billing capacity additions to system
	  • Value of incremental billing capacity additions for customers
	• Declining block charge determined having regard to cost of economic bypass by customer as well as other rate design considerations such as rate shock, after shielding ends

Summary Comments

- While the larger group (Proponents of Option C) agrees with the principles under Option D, they believe the path towards implementation would be more practical under option C, given the current circumstances of the Alberta economy
- The overall recommendation of the entire group is that the AESO take the ideas presented under Options C, D and all other presentations today and come forward with a bulk and regional tariff design that will achieve the AESO's rate design objectives