

Stakeholder Comment Matrix – Dec. 10, 2020

Bulk and Regional Tariff Design Stakeholder Engagement Session 4



Period of Comment: Dec. 10, 2020 through Jan. 12, 2021	Contact: Matthew Davis
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Instructions:

1. Please fill out the section above as indicated.
2. Please respond to the questions below and provide your specific comments.
3. **Please submit one completed evaluation per organization.**
4. Email your completed comment matrix to tariffdesign@aeso.ca by **Jan. 12, 2021**.

The AESO is seeking comments from Stakeholders on Session 4. Please be as specific as possible with your responses. Thank you.

	Questions	Stakeholder Comments
1.	Please comment on Session 4 hosted on Dec. 10, 2020. Was the session valuable? Was there something the AESO could have done to make the session more helpful?	Capital Power appreciates the opportunity to provide comments on the December 10 th , 2020 stakeholder session. The session struck a balance of discussing market participant’s proposed rate designs, introducing the concept of mitigation options, and broadly indicating the AESO’s intentions on changes to the bulk and regional tariff. Capital Power is supportive of the AESO’s direction to move away from the status quo (12 coincident peak or “12-CP” methodology), ¹ and looks forward to reviewing the AESO’s detailed bulk and regional tariff design with mitigation options presented in session 5. The details will be important, and Capital Power suggests that with the session materials the AESO intends to publish, it includes mitigation options within its bill impact calculator to clearly illustrate the benefits of the mitigation options.
2.	Do you have a view on whether an embedded or marginal cost allocation approach will more appropriately meet the AESO’s rate design objectives? Why?	<p>Capital Power understands that the embedded and marginal cost approaches need not be an either / or discussion and regulators have used both when designing rates.² Capital Power suggests that the AESO consider the benefits of using both allocation approaches appropriately to support its design objectives.</p> <p>While a marginal cost approach aligns with sending efficient price signals and may provide opportunities for additional innovation and flexibility, it requires a complex handling of re-allocating existing costs to ensure cost recovery. Further, a marginal cost approach would require determining the marginal cost of transmission, which Capital Power suggests is not likely a simple exercise, but one that could better inform future tariff development.</p> <p>As there is a significant requirement to reflect overall existing system costs and the benefit that customers receive from the grid, Capital Power views an embedded approach to most appropriately align with the AESO’s objectives around cost responsibility. Additionally, its current use aligns with the simplicity objective.</p> <p>Capital Power sees the objectives around minimal disruption and creating opportunities for innovation and flexibility as being enabled through the mitigation options discussion.</p>

¹ AESO Session 4 Presentation, Slide 28.

² e.g. [Synapse Energy Economics, Inc. Ratemaking Fundamentals Fact Sheet](#) which states that “some regulators rely on embedded cost studies to allocate costs between classes, and then use marginal cost information to inform rate design elements (such as inclining block rates or time-varying rates) within classes.”

<p>3.</p> <ul style="list-style-type: none"> a) Do you have a preference for any of the mitigation options presented at Session 4? Why or why not? b) Do you know of any additional mitigation options that have worked in other contexts and might be applicable here. Please specify. c) What do you think the AESO's needs to achieve with its mitigation(s)? Why? 	<ul style="list-style-type: none"> a) Capital Power is supportive of the AESO designing mitigation options that focus on rate design over those that focus on bill adjustments. <p>Creating additional options based on service level expectations and market participation allows for a more sustainable, customer-oriented design for the tariff going forward. A gradual and phased approach to transitioning the rate design vs. an abrupt change will mitigate the rate of regulatory change. When coupled these two mitigation options provide existing and future consumers several ways to manage their transmission costs.</p> <p>The use of bill adjustments appears more arbitrary and less aligned with FEOC principles, particularly permanent reductions. This option creates many questions such as: who would be eligible, what quantum of adjustment is allowable, who would arbitrate the process, and why past behaviour should infer current and future benefits. Capital Power is not supportive of the AESO pursuing this option.</p> b) c) The AESO's use of mitigation options as strategies has the potential to alleviate the impact of changes to the tariff not just on existing consumers but also future consumers. This is essential as customers are looking for additional options to manage their transmission costs. <p>In creating an interruptible service, Capital Power suggests that there is an opportunity to create a technology neutral rate option that would suit energy storage projects. Specifically, if the AESO designed a rate for any sink resource that commits to bidding into the market and adhering to the market rules, such a rate could also apply for energy storage assets when charging. This would alleviate Capital Power's concerns on creating a technology specific rate for energy storage.</p>
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Questions	Stakeholder Comments
<p>4. Are you supportive of the areas of agreement presented at Session 4? Why or why not? The areas of agreement presented include:</p> <p>Efficient Price Signals</p> <ul style="list-style-type: none"> • Price signals matter <ul style="list-style-type: none"> ○ Tariff charges provide incentives for customer behavior <p>Cost Responsibility</p> <ul style="list-style-type: none"> • Recognize that more than just load behavior drives transmission development • We are dealing with an evolving system <ul style="list-style-type: none"> ○ Current and future use may differ from what was that originally planned <p>Minimal Disruption</p> <ul style="list-style-type: none"> • Transmission costs have risen <ul style="list-style-type: none"> ○ Tariff charges are more important now than ever before • Minimize disruption, mitigate rate shock <ul style="list-style-type: none"> ○ It is not in anyone’s interest to reduce the number of ratepayers 	<p>Capital Power is generally supportive of the areas of agreement identified. Specific details follow:</p> <p>Efficient Price Signals: Capital Power believes that the price signals generated through the rate design matter greatly and have the potential to create opportunities to unlevel the playing-field and distort the energy market signal for investment. Capital Power has observed a trend of generation development that is designed to avoid current transmission rates and is concerned that the tariff signal is supporting investments that may not be borne out of the energy-only market signal alone. This is a clear indication of how the current price signals sent through rates are creating incentives for customers to alter their behaviour. As the AESO modernizes their bulk and regional rate design, it should take great care in understanding how its rate design impacts the energy-only market price signal, particularly given current uncertainty around self-supply and export opportunities. The AESO’s rate design should provide customers with options to remain on the system and be attractive to new investment – only with increases in overall load will transmission costs lower for all customers.</p> <p>Cost Responsibility: Capital Power agrees that the transmission development is driven by more than just load but would note that discussions around the transmission development policy and load’s cost responsibility is out of scope of tariff consultations. Capital Power believes that there is value in accessing the transmission system as it provides customers a highly reliable source of electricity, and access to the competitive wholesale market.</p> <p>Minimal Disruption: Capital Power is aware that with rising transmission costs, the overall delivered costs for consumers is rising. The total cost of the transmission system is largely sunk, as such, within the confines of the tariff design discussions the AESO is limited in their options to lower costs for all customers. The AESO can create mitigation options that better reflect customer’s service level expectations, allowing customers that are more elastic to price greater options. This can create a positive feedback loop and grow overall demand – which would lower prices overall. Without mitigation, there is a real concern that load destruction could occur which is disadvantageous to all Albertans.</p>

<p>5.</p>	<p>Are you supportive of the areas of disagreement presented at Session 4? Why or why not? The areas of disagreement presented include:</p> <p>Efficient Price Signals</p> <ul style="list-style-type: none"> • Are status quo price signals are efficient? <ul style="list-style-type: none"> ○ Price signals in tariff have reduced the cost of energy to other load • Are price signals forward looking? <ul style="list-style-type: none"> ○ Price signals are efficient to the extent changes in customer behavior reduce the need for future transmission costs <p>Cost Responsibility</p> <ul style="list-style-type: none"> • Is the primary objective cost causation, or cost responsibility? • Does the initial rate design still achieve goal of cost causation since transmission costs have risen and load behaviour has not influenced those costs? <p>Minimal Disruption</p> <ul style="list-style-type: none"> • Now is not the time for change or time to stop the bleeding? <ul style="list-style-type: none"> ○ Economic climate, policy uncertainty, change impacts a few very negatively and many slightly positively • Does rate mitigation need to be permanent or will customers adapt if temporary? 	<p>Capital Power submits the following comments with respect to areas of disagreement:</p> <p>Efficient Price Signals: Capital Power understands that the current tariff signal was set at a time where incremental transmission build out was occurring, as such, its design to lower peaks deferred or reduced the need for additional transmission. Much of that infrastructure is now built out and the tariff needs to recognize the benefits of the existing transmission system, and its existing costs. As such, while a marginal cost allocation approach would set a forward looking price signal, Capital Power is concerned that it would require significant, complex, modifications to fully recover the costs of the existing system, eroding the strength of a forward-looking price signal. Instead of adding this complexity at this time, Capital Power views the AESO's work on rate classes as an opportunity to better send price signals that align with the need for future transmission costs, and how customers value their connection to the grid.</p> <p>Cost Responsibility: The AESO has indicated that the bulk of the transmission costs are sunk, and ultimately there is a responsibility to recover those costs. Capital Power believes that the current design does not accurately achieve its stated objectives as it creates equity concerns amongst customers, and un-levels the competitive playing field.</p> <p>Minimal Disruption: Capital Power understands the sentiment to pause due to uncertainty but believes that providing clarity on tariff design is essential for investor certainty. The concerns with the current design have been well known and providing clarity now will allow for the development of an orderly transition that will allow industry time to plan for the future structure.</p> <p>Capital Power notes that the AESO's rate transition mitigation option is, by definition, temporary. Mitigation through the creation of new rate classes for differentiated service should be permanent and while supportive of the endeavor, Capital Power suggests that calling it a mitigation is a misnomer. While Capital Power is not supportive of the AESO pursuing bill adjustments as a mitigation, if done, would recommend it be temporary.</p>
<p>6.</p>	<p>Are there considerations that the AESO could include in its rate design proposal that would move you to at an area of agreement on any of the areas of disagreement (refer to question 5 above)? Please specify.</p>	<p>Please see discussion above.</p>

<p>7.</p>	<p>Are you supportive of the areas of agreement for energy storage presented at Session 4? Why or why not?</p> <p>Energy storage areas of agreement:</p> <ul style="list-style-type: none"> • Energy storage is unique in that it is not the producer or the end consumer of electric energy, nor is it the transmitter • Energy storage can participate in Alberta’s electricity use-cases by providing <ul style="list-style-type: none"> ○ Energy Price arbitrage ○ Operating Reserves ○ Non-wires solutions for transmission deferral • Energy Storage should be treated in a fair, efficient, and openly competitive (FEOC) manner 	<p>Capital Power supports the AESO's conclusion that energy storage is unique but notes that each service it provides to the grid is not.</p> <p>Capital Power disputes that energy storage can participate as a non-wires alternative at this time. While it is a plausible use-case, there are policy questions that need to be determined such as whether regulated or de-regulated investors can develop non-wires alternatives. Capital Power expects that this issue will be addressed separately and that any non-wires alternative energy storage project would adhere to applicable tariffs, and not be granted any special tariff.</p> <p>Capital Power believes that any assets participating in either the energy or ancillary services markets should be held to the same standards, regardless of technology. This is essential to maintaining a level playing field that is foundational to Alberta’s FEOC market.</p>
<p>8.</p>	<p>Are you supportive of the areas of disagreement for energy storage presented at Session 4? Why or why not?</p> <p>Energy storage areas of disagreement:</p> <ul style="list-style-type: none"> • Is energy storage a user of the grid or a component of the grid or both? • Does energy storage use the network for the Alberta specific use-cases? • Should energy storage pay for inflows and outflows like every other network user or not? • Should energy storage pay for one or more of administration, operations and maintenance, pod, regional, bulk charges? 	<p>Capital Power believes that the policy implications of the first question are out of scope of this discussion. Energy storage use-cases focused on energy and ancillary market participation clearly align with storage using the grid. Energy storage as a component of the grid has profound policy implications around what regulated utilities can invest in, how the AESO plans, and the role of non-wires alternatives.</p> <p>With respect to the following three questions, Capital Power reaffirms its position that the AESO develop technology agnostic rates in which energy storage is able to align how they use the transmission network with other market participant who behave similarly. All market participants are responsible for procuring the necessary fuel for producing electricity. Energy storage should not be treated differently just because its fuel source is electricity itself. Transportation costs, which for energy storage are costs associated with the network, are part of the equation when setting offers and should not be absolved for one technology over any others.</p> <p>Capital Power would like to indicate that through the introduction of differentiated rate classes as proposed in the mitigation discussion above, it is possible to design a rate that would align with an energy storage use case that would see outflows offer into the market just as source assets do today, and inflows bid into the market. A rate design that is set around any market participant that is willing to bid into the market could align with energy storage use-cases while maintaining technology neutrality in the tariff.</p>

9.	Are there considerations that the AESO could include in its rate design proposal that would move you to at an area of agreement on any of the areas of disagreement for energy storage (refer to question 8 above)? Please specify.	Please see discussion above
10	Do you have any comments on the AESO's proposed stakeholder engagement process, including the mitigation process, for the remainder of the Bulk and Regional Rate Design engagement?	Capital Power suggests that the AESO advance as much as possible the rate design mitigation options, particularly any new rate classes. It appears that there are opportunities through that discussion to resolve many of the issues for both customer costs and energy storage treatment.
11	Do you have additional clarifying questions that need to be answered to support your understanding?	Not at this time
12	Additional comments	Capital Power appreciates the AESO's efforts on this issue. This work is very much interdependent with other issues in industry, particularly the DOE's self-supply and export consultation. As the AESO illuminates its preferred design, it will be critical to understand the alignment with other issues.

Thank you for your input. Please email your comments to: tariffdesign@aeso.ca.