



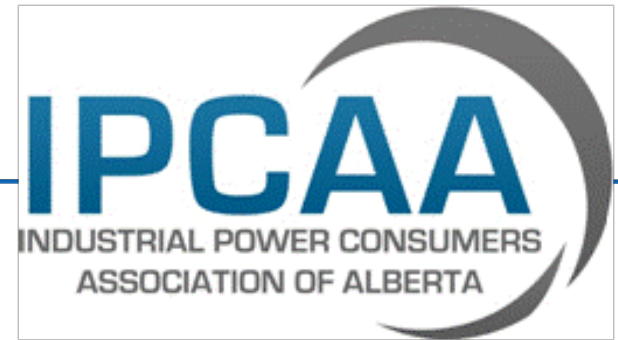
# RESPONSE TO AESO BUDGET PROPOSAL

Myles Fox  
Jamie Walker  
Vittoria Bellissimo  
Richard Penn  
February 10, 2020

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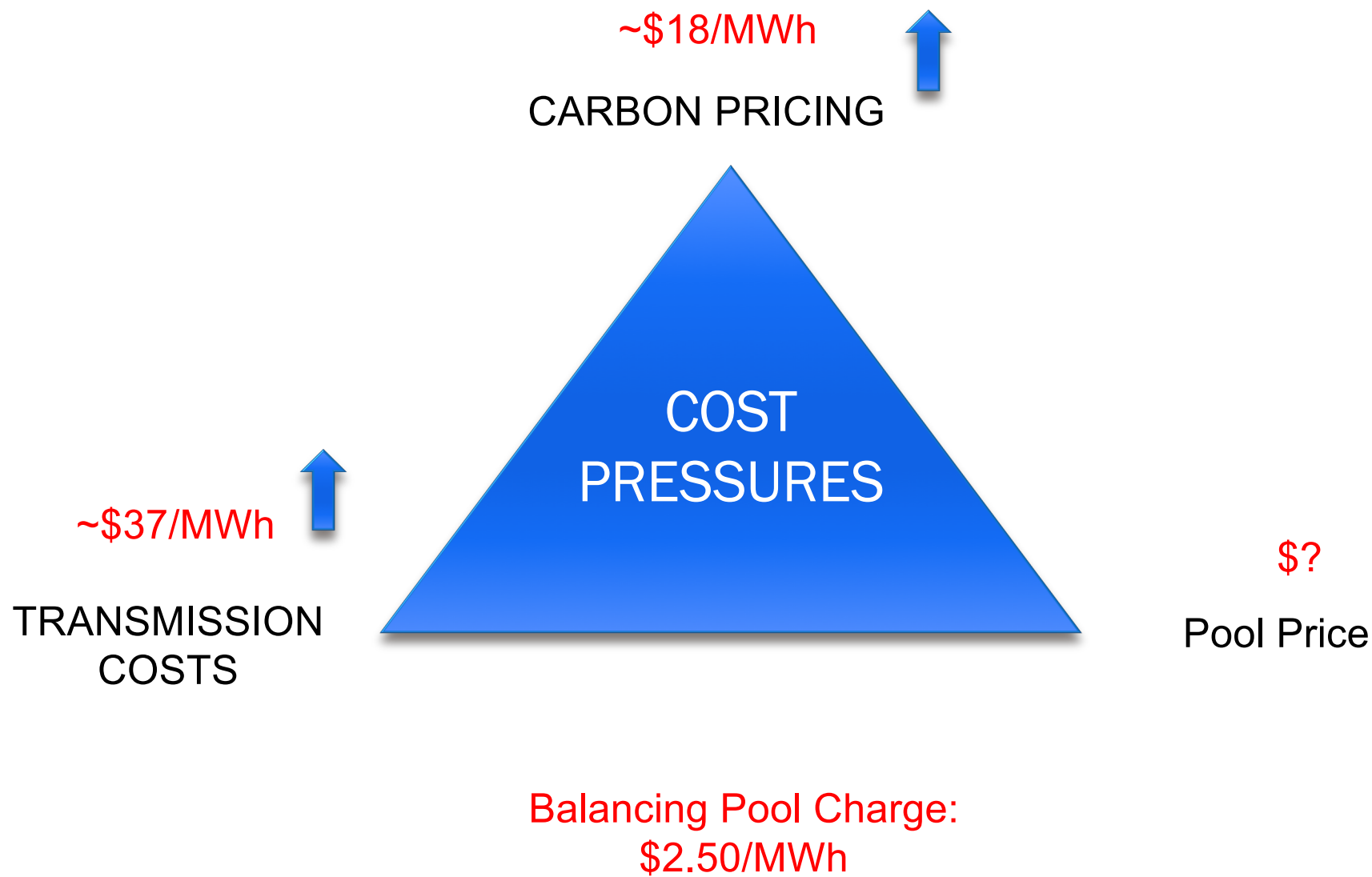
# ABOUT IPCAA

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- IPCAA was formed in 1983 as a membership-based society representing Alberta's large industrial electricity consumers.
- Our members are involved in key Alberta industries, including Oil & Gas, Pipelines, Petrochemicals, Agriculture and Steel.
- Our mission is to take a leadership role in ensuring that a competitive marketplace exists for electrical services.

# INDUSTRIAL COST PRESSURES



# AESO BUDGET: KEY COMMENTS

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1. AESO Own Costs
2. AESO Market-Related Issues
3. AESO Settlement Audit
4. Alberta Reliability Standards
5. Distribution Cost Concerns
6. New Transmission Infrastructure

# AESO OWN COSTS

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- The AESO's Own Costs are \$125.4M in 2020, with G&A at \$96.2M
- The AESO should benchmark its own costs to other ISOs in order to establish the value for money proposition for Alberta.
- The following table illustrates the costs of the formalized electricity markets in North America - normalized to US Dollars.

# AESO OWN COSTS

ISO/RTO	2020 Revenue Req. in (US\$)	Est'd 2020 Demand in TWh	2020 Revenue Requirement	Debt Outstanding at 12/31/2019	Authorised FTE's at 12/31/19	Authorised GWh/FTE
<b>AESO</b>	<b>\$95.3 M</b>	<b>64.1</b>	<b>\$1.49/MWh</b>	<b>N/A</b>	<b>457</b>	<b>140</b>
<b>ISO-NE</b>	\$199.5 M	146.7	\$1.36/MWh	\$96.0 M	584	<b>251</b>
<b>IESO</b>	\$194.6 M	160.0	\$1.24/MWh	N/A	818	<b>196</b>
<b>NYISO</b>	\$168.2M	154.3	\$1.09/MWh	\$98.7 M	594	<b>260</b>
<b>CAISO</b>	\$186.8 M	238.4	\$0.78/MWh	\$421 M	642	<b>371</b>
<b>ERCOT</b>	\$266.8 M	401.2	\$0.55/MWh	\$47.0 M	770	<b>521</b>
<b>MISO</b>	\$308.4M	750.0	\$0.41/MWh	\$167.0M	939**	<b>822</b>
<b>PJM</b>	N/A - Not Yet available					

Source:

<https://www.nyiso.com/documents/20142/8384551/2020%20DRAFT%20Budget%20Presentation.pdf/f33ce0f8-feb6-2458-60e4-bb5be921237c>

\*\*2018 Data

# AESO OWN COSTS

- Scale is an issue; however, **all of** these other ISOs provide additional services, many including:
  - Capacity markets for investment decisions
  - Security constrained day-ahead markets for energy and ancillary services for efficiency and reliability
  - Unit commitment for reliability purposes
  - Security constrained real-time markets for energy and ancillary services
  - Interties that can settle at a 15 minutes or 5-minute granularity that enhance both reliability and efficiency
  - Settlement day-ahead and real-time with a **5-minute** granularity that enhance reliability, flexibility and investment.

The AESO should benchmark its own costs and submit them to additional regulatory scrutiny

# AESO MARKET-RELATED ISSUES

- Since 2006 IPCAA and other loads and generators have advocated for an updated settlement interval that uses a much smaller time increment, i.e. 5 minutes, instead of hourly average pricing.
- An October 22, 2009 report by the AESO stated: *“The concept has benefits both for load participants in the energy market and supply participants, and there is no principle that suggests the settlement interval cannot be changed”*
- A recent FERC Order 825 (June 16, 2016) stipulates ISOs must settle:
  - *Energy transactions in real-time markets at the same time interval it dispatches energy,*
  - *Operating reserves transactions in real-time markets at the same time interval it prices operating reserves, and*
  - *Intertie transactions at the same time interval it schedules intertie transactions.*
- As they have learned in the US, the **energy and AS markets** send the investment signals for the type of flexible capacity needed.



## AESO MARKET-RELATED ISSUES (2)

- It has been nearly 15 years since this discussion initially occurred
- We would like to thank the AESO for recognizing that sub-hourly settlement may “*improve price fidelity and incent flexibility*” and including it as part of the AESO’s Market-Related Initiatives
- HOWEVER, it would be useful for the AESO to provide a vision of the EOM rather than its current stakeholder engagement on disparate pieces in its market-related initiatives.

The AESO needs to provide a vision of the EOM that incorporates both the energy and ancillary services market

# AESO SETTLEMENT AUDIT

- IPCAA would like to thank the AESO for proposing to undertake its first ever independent settlement audit.
- In other electricity markets this is a normal process every other year in to assure participants that the billions of dollars of settlements is correct.
- For example, a disagreement with one IPCAA member over an actual monthly system coincident peak timing has cost \$455,000.
- IPCAA members believe that an independent audit is required to confirm the accuracy of the AESO's settlement process.
- IPCAA believes the independent audit should include **all** settlement steps including the collection of meter data to affirm the data.

**IPCAA welcomes an independent audit  
of the AESO's settlement systems.**

# ALBERTA RELIABILITY STANDARDS

- IPCAA members are concerned over the workload associated with the Alberta Reliability Standards compliance in comparison to other jurisdictions.
- Time and resource requirements to achieve ARS compliance have been increasing steadily, without significant reliability improvements.

IPCAA suggests the AESO look for efficiencies and opportunities to improve the ARS compliance process.

# DISTRIBUTION COST CONCERNS



- For several years, IPCAA members have been concerned over increasing distribution costs.
- As an example, ATCO Electric estimated that a residential consumer in 2018 was paying \$187/MWh for transmission and distribution costs - this does not include the commodity cost.
- The AESO is estimating all-in costs of over \$300/MWh for residential consumers in ATCO Electric territory. For comparison, in Ontario “sparse network” all-in costs are in the order of \$150/MWh.
- In 2018, IPCAA commissioned a report by BECL and Associates to review distribution costs in Alberta. Key results are as follows...

# DISTRIBUTION COST CONCERNS

## Annual Change in Revenue Requirements for each DFO

Distribution Facility Operator (DFO)	Estimated Increase per Year in Total Revenue Requirement	Estimated Increase in Total DFO Load per Year	Ratio of Revenue Requirement Increase to Load Increase	Estimate Increase in DFO Customers Connected	Ratio of Revenue Requirement Increase to Customer Increase
FortisAlberta	10.7%	0.5%	23.0	1.9%	5.5
ATCO Electric	9.0%	1.8%	5.1	1.1%	7.9
ENMAX	10.8%	0.7%	16.0	2.0%	3.4
EPCOR	15.0%	0.8%	18.6	2.3%	3.1

## Annual Change Revenue Requirements for each DFO, excluding Transmission Access Fees

Distribution Facility Operator (DFO)	Estimated Increase per Year in Distribution Revenue Requirement	Estimated Increase in DFO Distribution Load per Year	Ratio of Revenue Requirement Increase to Load Increase	Estimate Increase in DFO Customers Connected	Ratio of Revenue Requirement Increase to Customer Increase
FortisAlberta	7.8%	0.9%	8.6	1.9%	4.0
ATCO Electric	7.1%	0.8%	8.5	1.1%	6.2
ENMAX	6.6%	0.7%	9.8	2.0%	5.5
EPCOR	7.0%	0.8%	9.2	2.3%	6.6

# DISTRIBUTION COST CONCERNS

- In AUC Proceeding 21973 in 2017, the AESO submitted that with respect to requests for system access service by distributors:
  - The AESO “invariably relies on information received by the market participant”.
  - The AESO argued that it was inappropriate for it to second-guess the distribution facility owners planning decisions and forecasts.
- There are no other checks and balances on distribution costs.
- We have heard that the AESO will be taking a larger role in reviewing distribution costs and we would like to thank them for that and ask for additional clarification on what that role will be.

IPCAA would like to thank the AESO for working with the AUC and the DOE to develop a process that provides the correct checks and balances on distribution costs in Alberta

# NEW TRANSMISSION INFRASTRUCTURE

- IPCAA would like to thank the AESO for its past efforts to maximize the use of the existing transmission system for the Renewable Electricity Program (REP).
- Effective utilization of the existing transmission system helps to reduce costs.
- IPCAA is concerned over the three new proposed large transmission projects and the implication of those costs on continued rising transmission rates.

The AESO should continue to promote effective utilization of existing transmission infrastructure prior to requiring new transmission to be constructed.

# QUESTIONS?

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Please feel free to contact us:

- Vittoria Bellissimo, *Executive Director*  
(403) 966-2700  
Vittoria.Bellissimo@IPCAA.ca
- Richard Penn, *Senior Policy and Regulatory Analyst*  
(403) 903-7693  
Richard.Penn@IPCAA.ca