

August 26, 2015

AESO Stakeholders

Dear Stakeholder:

Re: **Additional Information for Consultation on AESO 2017 Tariff Application**

On Wednesday, August 19, 2015, the AESO and stakeholders participated in a consultation meeting to discuss the scope of changes to be included in the AESO's 2017 tariff application. This letter follows up on some of the matters discussed at the meeting, provides additional information on the consultation processes tentatively proposed by the AESO, and requests written comments from stakeholders on the tariff consultation.

1 Transmission System Cost Causation Study

In the 2014 tariff application, the AESO included a 2014-2016 Transmission System Cost Causation Study prepared by London Economics International. The study established the inputs and methodology for a comprehensive transmission system cost causation study that used both capital cost and operating and maintenance cost data. A negotiated settlement process was established and the resulting negotiated settlement was approved by the Commission.

- (a) In its presentation, the AESO proposed to update inputs to the study while using the identical methodology used in the study included in the 2014 tariff application. The AESO would then present results of the updated study to stakeholders in January 2016.
- (b) As well, the AESO proposed to file an application to begin a negotiated settlement process for the study-only portion in February 2016.

2 Point of Delivery Cost Function

In Decision 2014-242 at paragraph 260, the Commission directed the AESO:

... to use the full increased capacity made possible by an upgrade project. If the AESO cannot reasonably determine this capacity level for any given project, then the project should be excluded from the database.

The Commission subsequently found, in Decision 3473-D01-2015 at paragraph 31, that the direction had "resulted in unanticipated effects" and implementation should be delayed until "the matter can be thoroughly explored". In light of the foregoing:

- (a) The AESO considers that two options should be explored: (i) cost function based on contract capacity and (ii) cost function based on installed capacity. Either option should apply to both greenfield and upgrade projects. The AESO also noted that the impact of projects with zero MW incremental contract capacity must be considered. As well, implications for cost recovery through rates and investment need to be considered.

- (b) In consideration of the results from 2(a) above, the AESO will update the connection project database for final costs where available, add new projects for which permit(s) and license(s) under the *Hydro and Electric Energy Act* have been issued, and update capacities. The resulting point of delivery cost function will be used to update Rate DTS, *Demand Transmission Service*, Rate PSC, *Primary Service Credit* and investment levels in section 8 of the tariff.

3 *Rider C and Deferral Accounts*

In the 2014 tariff proceeding, participants submitted that the AESO should further examine the Rider C structure to minimize imbalances between market participants. The Commission directed the AESO to discuss with stakeholders prior to filing its next general tariff application. The AESO identified the following potential causes of large individual deferral account reconciliation charges or refunds in its 2014 tariff application:

- Different bases for Rider C and Rate DTS components;
- Timing differences between Rider C collections and refunds as compared to production month deferral account reconciliations; and
- Variance from forecasts of costs and revenues.

Regular tariff update applications reduce the magnitude of Rider C and therefore potentially reduce large transfers. The AESO's filing of tariff updates in a timely manner should therefore alleviate stakeholder concerns.

The AESO's initial investigation suggests a change in Rider C structure (from \$/MWh to % of connection charge) would not significantly affect imbalances between market participants. The AESO has not identified any improvements to the tariff update, Rider C and deferral account reconciliation processes. The AESO indicated that it could present detailed results of the initial investigation in an upcoming stakeholder session.

4 *Other Topics*

The AESO also indicated as follows at the consultation meeting:

- (a) The AESO will review and determine if additional clarification is needed to the tariff regarding the recovery of system-related costs if a connection project is cancelled. The Commission may provide further guidance on this topic in its decision, expected shortly, to address the AESO's compliance with directions 5 to 8 from Decision 2014-242.
- (b) The AESO is proposing to add details of investment calculations upon reclassification of participant-related costs as system-related costs (and vice versa). These calculations would be similar to calculations performed when facilities are shared between two or more marked participants (based on contracted years and MWs)
- (c) The AESO will provide market participants with multi-year historical billing detail to enable stakeholders to analyze rate design and its impacts on a quantitative and objective basis. This data could include volume data (MWh, MW, coincident demand, substation fraction) and service details (DTS, STS, direct-connect). The AESO is requesting feedback on the data fields and data structure that will be required.

- (d) The AESO is currently reviewing the transmission rate impact project (TRIP) workbook development process, including providing periodic TRIP updates. A TRIP update today would not result in significant changes to rate projections. The AESO is proposing to post an updated TRIP with the 2017 Tariff Application in July 2016.

5 *Suggestions from Consultation Meeting*

Participants provided initial comments and suggestions on some questions asked by the AESO during the meeting. In particular, the AESO noted the following suggestions:

- (a) The current operating reserve charge rate design was identified as an issue by a distribution facility owner (DFO). The DFO explained that regulatory lag results in it holding significant balances for a significant period of time. Some participants were supportive of current operating reserve charge rate design and commented that this is a distribution regulatory process issue.
- (b) A participant raised the issue of investment levels not covering 60% of the similar average project costs. The AESO advised that it would not put this forward as a topic for the 2017 tariff application but that it would provide requested information to stakeholders enabling them to develop their proposals, if any.
- (c) Participants commented that they support the AESO's focus on filing the comprehensive tariff application and the tariff update applications as soon as possible.

6 *Preliminary Proposal for Consultation Process*

The AESO will invite written comments on the information presented at the August 19 meeting, using a standard stakeholder comment form. More information is provided in section 7 below.

In addition, based on discussion at the meeting, the AESO proposes the following consultation process for the development of its 2017 tariff application:

- (a) The AESO will hold a technical session in January 2016 to present:
 - i. results of the updated transmission cost causation study for the 2017 tariff application, including capital-related costs, operating and maintenance costs, cost functionalization, and cost classification;
 - ii. results of the thorough exploration of point of delivery cost function and update of the point of delivery cost database; and
 - iii. results from AESO's investigation of alternative Rider C structure.
- (b) The AESO will use a written comment process and, potentially one or two small working groups to consult on other changes to the tariff. The AESO will provide draft revisions to the tariff with relevant discussion and would then invite stakeholder comments on these draft revisions.
- (c) The AESO will hold a general stakeholder consultation meeting in April 2016 to update stakeholders on the progress of the development of the 2017 tariff application.

7 Request for Written Comments

The AESO invites written comments from stakeholders on this discussion of the tariff application scope. The [comment form](#) is attached and includes specific topics discussed at the meeting. Stakeholders may provide comments on other tariff application topics using the “Other Comments” section of the [comment form](#).

The AESO requests stakeholders to provide comments by returning the form to larhonda.papworth@aeso.ca by **Friday, September 11, 2015**.

All information relating to the AESO’s 2017 tariff consultation will be available on the AESO website at www.aeso.ca by following the path Tariff ► Current Consultations ► 2017 Tariff. As well, new information posted by the AESO on this topic will be mentioned in the AESO stakeholder newsletter, which you can subscribe to by clicking “Sign-up for our stakeholder newsletter” at the lower right of the AESO’s home page at www.aeso.ca.

If you need any additional information related to this consultation, please contact me by phone (403-539-2555) or by email (larhonda.papworth@aeso.ca).

Yours truly,

[original signed by]

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