

Proposed Terms of Reference for AESO consultation on tariff design for allocating costs for capacity procurement and bulk and regional transmission

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1. Background

The intent of the AESO’s consultation on tariff design for allocating capacity and bulk and regional transmission systems costs is to gather advice from stakeholders about these topics which the AESO will consider when developing the next ISO tariff application. The AESO has been directed by the Alberta Utilities Commission (AUC) to file this application by March 31, 2020. This consultation is expected to run between 12 and 18 months. The AESO will consult on these topics in a single process at the outset, and acknowledges that these two matters may be split into distinct consultation streams as progress is made.

2. Overview of consultation approach

The AESO will strike a Tariff Design Advisory Group (“Advisory Group”) to help guide the examination of considerations and alternatives for designing the ISO tariff to allocate capacity and bulk and regional transmission system costs. The primary role of the Advisory Group is to provide advice to the AESO on matters related to the design of its tariff. The advisory group will identify and examine all relevant alternatives, understand different perspectives, seek common ground, and identify preferred solutions. The Advisory Group may use working groups on an as-needed basis to conduct detailed technical analysis. These working groups will report back to the Advisory Group with their findings. The Advisory Group will then deliberate further and either direct the working group to conduct additional analysis or move on the next topic of examination. The AESO will host industry sessions on a quarterly basis or at key schedule milestones in order to report to industry stakeholders on the activities and progress of its consultation. At any time, the Advisory Group or the AESO may choose to seek feedback from broad industry on certain topics.

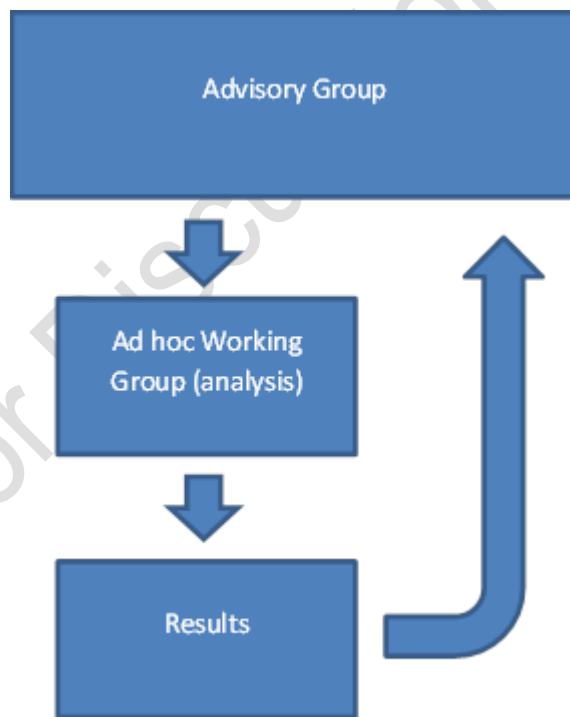


Figure 1 Tariff Design Advisory Group process

3. Principles

Consultation about tariff design for these topics will be guided by:

- The AESO's [engagement principles](#).
- Rate-making principles (Bonbright's principles¹), namely:
 - Recovery of the total revenue requirement;
 - Provision of appropriate price signals that reflect all costs and benefits, including in comparison with alternative sources of service;
 - Fairness, objectivity, and equity that avoids undue discrimination and minimizes inter-customer subsidies;
 - Stability and predictability of rates and revenue; and
 - Practicality: rates must be appropriately simple, convenient, understandable, acceptable, and billable
- Must distribute costs fairly, in a manner that provides incentives for economic efficiency (e.g., in the case of the capacity market cost allocation; incentives to reduce the volume of capacity that needs to be procured. In the case of bulk and regional transmission cost allocation; incentives to reduce the amount of transmission infrastructure that will be required over time).
- The consultation and design will be confined to the bounds of existing legislation. Should legislation change, adjustments will be made accordingly. In the absence of legislation, government policy will confine the scope of the consultation until legislation is passed.
- Further input on capacity market design elements is not within the scope of the tariff design process.

4. Objective and intended outcomes

The AESO's primary objective for its consultation is to develop a tariff design for allocating costs for the capacity market and for the bulk and regional transmission system that is informed by a robust analysis and thorough examination of stakeholder impacts and concerns. The AESO will also be seeking input from the Advisory Group members about what may be appropriate analysis and charges for consumers who may not impact the costs for procuring capacity or do not cause bulk and regional transmission system development but however do benefit from having capacity and the transmission system available to them for their use.

Specific intended outcomes for this consultation include the following:

- ~~meeting~~Meeting the requirements of legislation;
- ~~identifying~~Identifying, developing and evaluating a comprehensive list of options for allocating capacity costs and bulk and regional transmission costs; ~~and~~
- ~~achieving harmony~~Mitigating or minimizing as much as possible the risk of load defections or bypass; ~~and~~
- ~~Achieving consistency~~ among tariff components (e.g., ~~harmonization~~consistency across energy, capacity, transmission and distribution such that different tariff provisions remain aligned as much as possible)

5. Scope of tariff design consultation

¹The original text of Bonbright's Principles is expansive and that there may be instances during this consultation where consulting this text would be helpful.

Individual scopes and work plans have been developed for each of the capacity market and the bulk and regional transmission cost allocation streams. Overviews of this work are provided below. Detailed work plans for each stream will be developed and approved by Advisory Group members in subsequent sessions, once members have been selected.

The treatment of line losses is not in scope for this consultation as the costs for losses are assumed to be charged to generators.

5.1 Tariff design for capacity market cost allocation

Initially, Government of Alberta policy will provide the direction regarding capacity market cost allocation. This currently indicates a weighted energy method is to be used and that these costs will be recovered through the ISO tariff. Adjustments will be made if Government of Alberta policy changes or when legislation is passed.

More specifically, current Government of Alberta policy indicates that:

- A requirement to forecast the amount of electricity required for each capacity delivery period;
- Within a capacity delivery period there will be a requirement to define time blocks and associated weightings for those time blocks;
- Every hour within the capacity delivery period must be assigned to one of the time blocks;
- Every day within the capacity delivery period must contain hours which have been assigned to a minimum of two different time blocks;
- Time blocks may recur each day but are not required to be defined as recurring each day;
- Time blocks must be assigned a weight for the purposes of the method. Weights reflect the proportional impact that additional consumption during the time block has on the need to procure additional capacity;
- Some time blocks may be assigned a weight of zero; and
- The AESO will apply the defined time blocks, weights, and the load forecast to the total costs of the capacity market for the capacity delivery period to derive a dollar per megawatt hour rate to be charged to each unit of consumption in each time block of the capacity delivery period.

While opportunity services have not been specifically allowed for in current Government of Alberta policy documents it is proposed that these be included in the scope until the Government of Alberta concludes its consultation on upcoming legislation.

The areas for review and that will be included in a work plan are as follows:

- Defining data requirements
- Defining time periods (WEM)
- Defining time period weightings (WEM)
- Determine rate classes
 - WEM
 - Opportunity services (note: current policy does not allow for opportunity services)
- Rates development
- Determination of deferral account methodology
- Application preparation
 - Alternatives and preferred solutions

5.2 Tariff design for bulk and regional transmission

Current legislation will provide the direction regarding transmission cost allocation however this will be limited to only include costs that are currently identified as bulk and regional transmission system costs established in prior General Tariff Applications. Opportunity services such as interruptible, standby, or energy storage will also be considered in the comprehensive tariff design consultation process.

The areas for review and that will be included in a work plan are as follows:

- Defining data requirements:
 - Historical
 - Forecast
- Defining functionalization;
- Defining classification;
- Defining allocation;
- Defining billing determinants;
- Rates classes and development; and
- Application preparation
 - Alternatives and preferred solutions.

Consultations that occurred from February to April of 2018 on this matter identified a number of data and analysis that should be undertaken. The items identified in those sessions are as follows and will be included in the items to be addressed by the advisory group.

- Historical analysis of load served by on-site, distribution connected generation;
- Coincident metered demand “bypass,” including the probability of coincident metered demand avoidance;
- Revised transmission cost causation methodology and study;
- Load analysis of major bulk system lines;
- An understanding of forecast and planning processes; and
- Analysis of other bulk and regional cost recovery mechanisms.

6. Advisory group membership

6.1 Principles for membership and participation

The AESO is seeking Advisory Group members who will be directly impacted by the ISO’s tariff design for allocating capacity and bulk and regional transmission costs, namely DTS rate payers, primarily DTS rate payers. Other interested parties such as generators, transmission facility owners, renewables and storage will also be allowed to participate as advisory group members. The AESO is also seeking substantive industry knowledge (specifically related to tariff design) and significant commitment from Advisory Group members.

To keep discussions manageable and effective, advisory group Advisory Group membership will be kept as low as possible without compromising ~~the stakeholder representation~~ and required technical expertise. Approximately 75 per cent of Advisory Group members should represent demand type rate payers and ~~approximately~~ 25 per cent should represent other interested parties. The formation of the Advisory Group will be determined through a self-selection process based on the identified associations declaring a representative(s) for their particular impacted rate payer group. If a specific customer wishes to participate as an advisory group Advisory Group member, and the customer is also a member of an association, ~~the individual~~ must work with ~~his/her~~ their association to be declared as one of the

members who will represent that ~~rate payer~~ group. Should the self-selection process be unsuccessful the AESO will initiate an application process for ~~advisory group~~ Advisory Group membership that would be similar to the one utilized in establishing the ~~Capacity Market Design working groups~~ Capacity Market Design working groups. The AESO reserves the right to appoint any party to the Advisory Group to ensure the interests of the group are balanced or to ensure the advisory group has the expertise it requires.

Advisory Group members will also be permitted to invite subject matter experts to assist with presentations or technical discussions. These subject matter experts will have to be approved by the Advisory Group and then can be scheduled as an attendee in support of an Advisory Group member's presentation. The AESO reserves the right to accept or reject the participation of any additional subject matter expert if the Advisory Group cannot reach consensus on participation.

~~For those who are not selected as~~ Advisory Group members may rely on an alternate when they are unable to attend Advisory Group sessions, however, Advisory Group members must ensure that their alternate is fully prepared to participate. The Advisory group member must declare who their alternate will be provided.

For stakeholders who are not participating on the opportunity to ~~Advisory Group may~~ provide a list of issues to the Advisory Group membership for consideration. The opportunity for non-advisory group stakeholders to provide feedback will also be extended following the conclusion of any broader stakeholder session where cost allocation progress, activities or conclusions are reported. However, the AESO encourages all stakeholders to first request their Advisory Group representative to bring their comments or concerns forward to the other Advisory group members to allow the Advisory Group to work as effectively and efficiently as possible.

Certain AESO staff will be participating as members of the advisory group; other AESO staff may also attend sessions as subject matter experts or as observers. Agencies such as the Market Surveillance Administrator or AUC will also be permitted to attend Advisory Group sessions.

Accommodation for members wishing to participate remotely will be made so long as that participation remains effective.

6.2 Composition

A preliminary membership list and numbers has been provided in the table below. Generally, members with a broader representation of a stakeholder community will be provided a larger number of representatives. Up to three ~~members-representatives-at-large~~ may also participate as ~~advisory group~~ Advisory Group members; this provision is intended to help ensure that ~~advisory group~~ Advisory Group discussions are informed by the broadest ~~expertise and~~ perspectives and expertise available. Parties interested in serving as ~~members-representatives-at-large~~ are encouraged to express their interests at the first stakeholder session and should include a brief explanation about why they believe they are well suited to serve on the Advisory Group. A follow up application for members at large may be required if more than the allocated numbers ~~request participations~~ submit requests to participate.

#'s allowed	Stakeholder category	Possible member(s)
Demand rate payer representation		

24	Residential, farm and commercial consumers	<ul style="list-style-type: none"> Office of the Utilities Consumer Advocate plus a retailer Retailer Consumers' Coalition of Alberta (CCA) Alberta Federation of Rural Electrification Associations (AFREA)
2	Mass market consumers	Consumers Coalition of Alberta, AFREA
2	Industrial consumers	<ul style="list-style-type: none"> Industrial Power Consumers Association of Alberta plus an industrial(IPCAA) Industrial customer
2	Demand Response	<ul style="list-style-type: none"> Alberta Direct Connect plus a transmission(ADC) Transmission-connected customer
42	Combined Load/Gen	Dual Use Customers (DUC) Cogeneration Working Group (CWG)
2	Distribution facility owners	TBD (these members should represent all stakeholders in this category)
2	Representative Representatives at large	TBD
Other interested parties		
1	Transmission facility owners	TBD (this member should represent all stakeholders in this category)
1	Generation (<u>includes renewable generation</u>)	Independent Power Producers Society of Alberta (IPPSA)
1	Renewables/energy <u>Energy</u> storage	TBD
1	Representative at large	TBD

6.3 Working groups

Working ~~groups~~ Groups will be comprised of Advisory Group members, AESO staff and in some cases outside technical experts. The ~~advisory group~~ Advisory Group will determine membership but should consider relevant expertise when choosing ~~members~~ individuals to perform any technical analysis the Advisory Groups or the AESO deems as necessary to make progress on consultation deliverables.

Working group sizes will be limited to a maximum of 6 individuals. An Advisory Group member will serve as chair of any working group that is established; the chair will be responsible for directing the analysis

assigned and reporting back to the Advisory Group. If consensus cannot be obtained from the Advisory Group on Working Group membership then the AESO will decide on the membership.

6.4 Member conduct

Parties will participate in good faith, but on a “without prejudice” basis. That is, they can revise any position they take during the consultation, however, they should have valid reasons to do so.

Advisory group members will:

- ~~participate~~Participate with the understanding that their contributions will not be specifically attributed to them future regulatory proceedings;
- ~~work~~Work collaboratively with other members and work toward consensus when providing advice to the AESO;
- ~~avoid~~Avoid dominating discussion and permit other points of view to be heard and understood;
- ~~avoid~~Avoid raising topics, issues and decisions that the advisory group has previously addressed unless new information warrants it;
- ~~review~~When identifying a concern or issue, as best as possible, provide a potential course of action to resolve the concern or issue;
- Review all discussion materials in advance of meetings;
- ~~attend~~Attend all working meetings or send a delegate who is well-prepared to participate in their place;
- ~~be~~Be transparent about their interests;
- ~~carry~~Carry out tasks assigned; and
- ~~bear~~Bear their own costs of participating in the advisory group.

Members who fail to meet these expectations may be removed, at the discretion of the AESO, from the advisory group and replaced by another member selected by the AESO.

6.5 Term

Advisory group members are expected to serve until March 20, 2020. Written notice of resignations and terminations is required.

7. Advice and feedback

The AESO will receive advice primarily through advisory group meetings but may on occasion request additional written advice following Advisory Group meetings. The AESO may also seek feedback on tariff design topics from industry. All written advice and feedback provided during this consultation will be posted to the AESO’s website.

8. Governance

8.1 Decision-making

Advisory Group decision making is limited to methodological questions directing the course of its examination of tariff design topics. Decision making should seek consensus. However, the timelines for this consultation are ~~tight~~constrained and should consensus be deemed unachievable, the AESO will consider alternatives presented and make decisions in order to ensure timely progress on consultation deliverables.

8.2 Meetings

All advisory group meetings will use a facilitator selected by the AESO. The facilitator will ensure that in each advisory group meeting, all members have equal opportunities to contribute to discussions and also that these discussions progress toward achieving the objectives set for each meeting. It is expected that meetings will take place in Calgary. Advisory group members may participate in meetings remotely by teleconference, provided their participation can remain effective.

9. Transparency and reporting

The AESO's consultation on tariff design will be transparent. Transparency measures are intended to allow opportunities for industry stakeholders who are not participating in the advisory group to stay informed about the consultation. Subject to confidentiality provisions, the AESO will provide access to all discussion materials supporting the advisory group. Best efforts will be made to provide materials in the following manner:

- ~~agendas~~Agendas for working group meetings posted one week in advance of meetings;
- ~~discussion~~Discussion materials for each meeting posted one week in advance;
- ~~a~~A high level "white board" summary ~~of~~will be reviewed and agreed upon at the end of every advisory group meeting and will contain as a minimum a list ~~of~~of action items and conclusions arrived at during the session. This will be posted one week after each meeting; ~~and~~
- ~~written~~All written correspondence provided outside of the advisory group meetings and to be shared with the advisory group members will be made through ISOtariffnotice@aeso.ca; and
- Written feedback posted one week after the deadline for which it was requested.

The AESO will also host industry sessions at key milestones to report on ~~advisory group~~Advisory Group progress.