



CITY OF
Lethbridge

Infrastructure Services (Electric)



ELECTRIC, LIGHT & POWER DEPARTMENT

March 29, 2018

Doyle Sullivan Regulatory
Alberta Electric System Operator (AESO)
2500, 330 – 5th Avenue SW
Calgary, AB T2P 0L4

Dear Mr. Sullivan,

SUBJECT: 2018 AESO Tariff Application – 12 Coincident Peak Allocation Issue

As per the AESO's request for feedback on the March 12, 2018 presentations related to the coincident peak allocation method, the Cities of Red Deer and Lethbridge are pleased to provide the following comments.

As distribution facility owners and DTS customers, the Cities have an interest in a fair and efficient AESO tariff that provides the greatest reward to customer behaviour that is the most beneficial to the system. In other words, the Cities support prioritizing the rate-making principles of cost recovery, appropriate price signals, and fairness. That said, the Cities are also aware that consensus on rate-making principles does not meaningfully facilitate consensus on the specific methods of cost-allocation and rate design.

Indeed, the March 12, 2018 meeting demonstrated that there is much disagreement over whether a new tariff is required, the risks of changing (or not changing) the tariff, and what an alternative to the new tariff should look like. Only the suggestion that the AESO complete additional analysis sparked general agreement from the stakeholders present. While the Cities are not necessarily opposed to further study and analysis, they also are not convinced that further information is necessary to address immediate deficiencies in the current tariff. Nor are they optimistic that more detailed studies will lead to any sort of agreement or consensus on the fairness of the tariff.

Regardless of what further studies are or are not completed, the Cities take the high-level view that the transmission tariff must provide the greatest reward for behaviour that is the most beneficial to the system overall. Based on their

experience as electric utilities, the Cities know that lower load factors use existing wires capacity more efficiently and help to defer the need to build more capacity.

A simple test of any proposed tariff is to calculate DTS charges for a hypothetical customer with a finite capability to produce MWhs of behind-the-fence generation. For two scenarios of otherwise equal MWhs of generation, the lower net load factor customer should have the lower DTS invoice. If not, the DTS is rewarding inefficient configurations of behind-the-fence generation that will lead to a poorer utilization of wires capacity in the future.

The current AESO tariff provides a greater reward to a customer that shifts or reduces load for short periods of system peak compared to a customer that flattens its load over a larger number of hours. Further study might help to quantify the incremental benefits and set a more precise signal, but the Cities submit that the necessary first step is to ensure the tariff is at least directionally correct. The current and last-proposed tariff does not meet the basic requirement of providing the largest reward to a customer who deploys its behind-the-fence generation resources to flatten its net load factor.

As an interim measure and to mitigate rate shock, the price differential for different load factors can be conservatively small. However, the Cities submit that the tariff can and should be immediately revised to at least be directionally correct pending any further research and study that the AESO deems appropriate.

Thank you for the opportunity to provide feedback on this issue. If you have any questions, please don't hesitate to call Jim Jorgenson at (403) 342-8341 or Stewart Purkis at (403) 315-9962.

Sincerely,

<submitted electronically>

Jim Jorgenson, City of Red Deer Electric Manager
Stewart Purkis, City of Lethbridge Electric Manager

cc. Michael Turner, Chymko Consulting