

AESO Consultation – 2020 Budget Review Process (BRP):

Stakeholder Presentations to AESO Board – February 10, 2020

Summarized Stakeholder Comments and AESO Responses –

The following matrix is a summary of the stakeholder comments presented to members of the AESO Board on February 10, 2020 regarding the AESO 2020 Business Plan and Budget Proposal (Proposal). It also includes AESO Management’s replies to these comments for AESO Board consideration in determining their Decision. This summary material should be reviewed in conjunction with the Proposal and the Stakeholder Presentations to the AESO Board.

Stakeholder Comments on the 2020 Budget Review Process
<p>Stakeholder Comments and AESO Responses – Stakeholder Presentations to the AESO Board February 10, 2020</p>
<p>Alberta Direct Connect Consumer Association (“ADC”)</p>
<p>Comment 1</p> <p>The AESO should continue to promote effective utilization of existing transmission infrastructure prior to requiring new transmission to be constructed.</p>
<p>AESO Response</p> <p>The AESO has the objective of optimizing the transmission system infrastructure. A focus of the Long-term Plan development strategy is to ensure that the transmission plan is flexible and adaptable to a wide variety of potential future scenarios. The focus also includes efficient use of the existing transmission system with timely addition of necessary new transmission developments. Please see the <i>AESO 2020 Long-term Transmission Plan</i> for additional information.</p>
<p>Comment 2</p> <p>Electricity System Development Transmission Tariff Design – ADC key priority</p> <p>Need to ensure that price responsive loads can continue to be competitive in Alberta. Consider tariffs for interruptible loads, review the 5-year notice requirement.</p>
<p>AESO Response</p> <p>The AESO is currently working with stakeholders to determine (1) the appropriateness of the current coincident metered demand charge, and (2) potential changes to the ISO tariff regarding current bulk and regional cost recovery, culminating with an application to be filed with the Commission by September 30, 2020. Proposed changes to the ISO tariff for bulk and regional cost recovery will be assessed in light of the Tariff Design Objectives. These objectives include (1) ensuring effective long term price signals that encourage efficient use of the transmission system by aligning price signals and planning signals, (2) ensuring the ISO tariff can facilitate innovation and flexibility, (3) ensuring that the ISO tariff reflects the accurate costs and value of grid connection services, (4) exploring tariff design options within existing legislation and regulation, and (5) ensuring that the path to change is effective and minimally disruptive to electricity consumers. Within these objectives ADC’s comment will be considered.</p>

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AESO presented its Tariff Redesign Guiding Objectives at the Nov 15, 2019 Tariff Design Advisory Group meeting:

<https://www.aeso.ca/assets/Uploads/TDAG-presentation-November-15.pdf>

Comment 3

Electricity System Development

Self-Supply and Metering – 2018 GTA

Concerned about how the Self Supply policy is impacting the tariff design and allowable metering configurations. Concerned about the AUC ruling that industrial sites with generation and without an ISD are operating illegally. Need a strong AESO voice in resolving the policy concerns on self-supply and export.

AESO Response

Comment noted. AESO is involved in the AUC self-supply bulletin. AESO supports customer choice and enabling consumers to optimize their electricity consumption based on competitive forces, regardless of how they choose to self-supply and/or export to the AIES. With that, the AESO requires visibility of the asset for efficient market operation and grid reliability as well as a tariff design that ensures that the value provided to facilities by being physical-connected to the AIES are properly reflected.

Comment 4

Electricity System Development

Deferral Account

Delays and many years of prior adjustments are difficult for industry to manage. ADC member deferral account allocation was over \$5M.

AESO Response

We appreciate your support. The AESO recognizes that large deferral account reconciliation (DAR) balances are impactful to market participants. The 2017-2018 DAR was a two-year deferral account reconciliation due to the time required to make deferral account reconciliation system changes resulting from the AUC's approval of a change to the DAR methodology. Even so, the AESO strives to file only one year of deferral account reconciliations at any time and is working diligently to support this effort. While not all delays are within the AESO's control, modifications to the underlying system and resource requirements are being evaluated and are included in the AESO's IT Strategic Initiative surrounding efficiencies and productivity enhancements.

Potential future changes to DAR methodology, such as a review of the 72% to determine forecast wires costs and the cost/benefit and equitable treatment of potential sunset clauses and materiality thresholds are being discussed internally. These issues will require review by the AESO with stakeholders leading up to an application to the AUC for approval. Timing of this stakeholder engagement and potential tariff filing with the AUC has yet to be determined by the AESO and will be considered within the priorities of all ISO tariff work.

As summarized in AUC Decision 24910-D01-2019, the AESO noted that if there were no changes to the DAR methodology it would be possible for it to file its DAR application in quarter two of a calendar year. The AESO also stated that it could provide DFOs with preliminary estimates of annual deferral account shortfall or surplus amounts by the end of quarter one. Please note that recently the largest impacts historically to deferral account balances have been late TFO filings and revisions.

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Comment 5

Market Development

Energy Market Enhancement

ADC will participate and continue to advocate for a shorter settlement interval to recognize the value of flexible resources

AESO Response

Comment noted. Please refer to the *2020 Plan for Market-Related Initiatives* which includes Sub-hourly Settlement. This Plan provides an overview of the market-related initiatives that the AESO intends to progress in 2020.

Comment 6

Support improving productivity and ensuring appropriate resources are allocated to the Bulk and Regional Tariff design.

AESO Response

Comment noted.

Industrial Power Consumers Association of Alberta (“IPCAA”)

Comment 1

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

AESO Response

The AESO and other ISOs / RTOs have performed peer reviews of costs in the past and these reviews have not resulted in the development of information that would be useful for a comparison. As you have indicated the functions that the ISOs / RTO’s perform may be different and the services they provide may be on a different scale. As your chart demonstrates, the larger the scale of operations the lower per \$/MWh recovery of costs. Stakeholder consultation through the BRP was established to find efficiencies to facilitate the regulatory process with respect to the approval of the AESO’s Own Costs. The Transmission Regulation establishes several relevant provisions in this regard. The BRP participants comprised of the AESO and stakeholders began this process in 2005 to provide stakeholders with greater transparency of the AESO’s planning processes and an increased understanding of the operations of the organization. Also, this process facilitates the AESO Board receiving stakeholder comments prior to making a decision in respect of the AESO’s budgeted Own Costs, forecasted Ancillary Services costs and forecasted Transmission Line Loss costs. The AESO is committed to providing transparency and allowing for a comprehensive review of its Own Costs through the BRP. The AESO does not intend to submit these costs for AUC approval. However, the AESO is open to considering suggested enhancements and will be reviewing the process in 2020.

Comment 2

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

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AESO Response

The AESO notes IPCAA's comment. Alberta depends on a competitive electricity market with robust price signals to attract the level of private investment needed to secure an adequate supply of electricity to support its economy and Albertans quality of life. The AESO believes that competitive forces drive the best outcomes for consumers, to deliver both reliability and optionality at reasonable cost. Clear and aligned price signals across the value chain can influence efficient production and consumption decisions and the efficient use of infrastructure. As the industry and technology are changing at a faster pace than ever before, market structure and rules must keep pace, while recognizing the importance of regulatory stability to investor confidence. In that context, the AESO seeks to refine and evolve the energy and ancillary service markets as necessary, with a focus on ensuring sustainability, enhancing flexibility and enabling competition by removing barriers to entry.

Comment 3

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

AESO Response

The AESO has included initiating a settlement audit of AESO settlement processes in its 2020 Business Initiatives. The first phase of the initiative will be to assess if the controls are in place (readiness assessment). The second phase of the initiative will be to test the effectiveness of the controls over a period of time. The start of the second phase will depend on the readiness assessment and any mitigation required.

Comment 4

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

AESO Response

While the AESO is always looking for ways to create efficiencies in its operations and is open to feedback that will help it in that endeavour, the AESO is of the opinion that its current compliance program effectively balances industry efforts to comply and to demonstrate compliance to requirements with providing assurances to the industry that security and reliability of the bulk electric system is maintained. The Alberta Reliability Standards Compliance Monitoring Program (CMP) requires significantly less overall industry effort in comparison with the NERC program.

The AESO acknowledges and agrees that there has been an increased effort and workload to comply and demonstrate compliance to the increasing number of standards. The AESO recognizes that this is due to the introduction of batches of new standards in the past few years, including the 11 CIP standards in 2017 alone. In our estimate, it is at least 150% more effort and volume to prepare for CIP audits than all of the other ARS standards in total. The AESO also sees the significantly increased efforts as an entity that must comply with CIP standards as well, but we do realize that first time audits of new standards do identify gaps that can be addressed to improve reliability and security of the bulk electric system. Most significantly, CIP standards are one of the most important sets of standards to prevent and discourage cyber-attacks to Alberta's electric infrastructure, which is one of the biggest risks and threats we face as an industry overall.

The AESO is continually improving the CMP, revising the Core Audit Requirements list, and working with market participants through our Audit Training Sessions, Self-Certification Training, and Lessons Learned Sessions to improve understanding and efficiency of the compliance programs. The AESO submits that we have an efficient monitoring program designed to provide a high level of assurance for the effort involved. The AESO is subject to the same audit requirements as the rest of our industry, and has the same interests in ensuring the best value is attained. The AESO continues to welcome input for improvements to our programs.

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Comment 5

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

AESO Response

The AESO will be initiating an initiative to develop, in alignment with industry, a framework to support the coordination of Transmission & Distribution planning. Through this engagement, the AESO intends to achieve the following: (i) identification of current issues associated with, among other things, the impact of distribution planning criteria upon the transmission system, probabilistic planning, cost benefit assessments, and DFO load forecasts; (ii) alignment among stakeholders regarding the issues to be addressed; and (iii) ultimately, a coordinated transmission and distribution planning framework.

Comment 6

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

AESO Response

Please see AESO's response to ADC's comment 1, above.

Independent Power Producers Society of Alberta ("IPPSA")

Comment 1

The BRP should be a Collective Priority Setting Process

- Generators and consumers expressed concerns about AESO's Own Cost and trading charge throughout the BRP process, but there was no mechanism or willingness to rationalize the AESO's proposed Business Initiatives.
- Department Heads (Markets, Transmission and Operation) should present to BRP. This would enable the AESO's customers to understand the AESO's Business Initiatives and better offer trade-offs to reduce AESO costs.
- These initiatives can also be reviewed and understood via Advisory Committees throughout the year and in advance of the BRP process.

The BRP should include Costing of Key Business Initiatives

- Despite requests, no costing of Key Business Initiatives was forthcoming
- The final Board presentation leaves the AESO Board no better off on what key initiatives will cost. (see PDF page 23.)

AESO Response

The AESO continues to look for opportunities to reduce costs and gain efficiencies. The 2020 G&A budget is generally consistent with the years 2014, 2015 and 2016 (pre-Capacity Market). This is despite the impact of inflation on AESO costs over the 5 year period (software licenses and subscriptions, managed services from third parties, etc.); implementing CIP standards in October 2017; a new EMS system in June of 2017; the strategic shift to Software As A Service (SAAS) products, moving costs from capital software to general and administrative; and the SCC expansion project completed in 2019. Significant effort is being incurred to mitigate the impact of rising costs to align spend with historical costs.

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The AESO does not allocate its G&A costs by Business Initiative. Additionally, the AESO has other core or baseload work that is not part of the Business Initiatives. All of the Business Initiatives are multi-year or have the potential to be multi-year with the exception of the Stakeholder Engagement Framework. Many of the 2020 proposed Business Initiatives are at the first year or early in their design and implementation. All of the Business Initiatives work is deemed to be important and form the basis of the AESO's organizational direction for 2020 and thus are not ranked. The Business Initiatives are either mandated, required for the advancement of the AESO's strategic plan or have been requested by stakeholders. The AESO manages its resources to ensure the identified work for 2020 can be managed successfully while minimizing cost.

The 2020 Budget Process is as follows: AESO prepares its Own Cost budget based on the business planned for the budget year. Assessments of required resources both internally and externally are evaluated on various criteria. These criteria include, but are not limited to: resource requirements to deliver on key Business Initiatives; consideration of specialized knowledge, skills or cost effective resources; and resource constraints due to workflow and timing of initiatives; and risk mitigation requirements.

Subsequent to Government of Alberta (GoA) decision to not continue with the REP and Capacity Market initiatives, AESO Management undertook a detailed review of its resources (staff and consulting). Department and individual staff positions were reviewed to assess if excess capacity existed from the GoA decision. In addition, a high level assessment was undertaken of the AESO's organizational structure to identify opportunities for efficiencies and how the AESO should be structured going forward to achieve its objectives (e.g. operations and transmission departments were combined to form grid reliability and the market and commercial department were combined to form a single group). As a part of Management's review, resources were assessed to determine if they were adequate, on an overall basis, to deliver on the AESO's base business and initiatives for 2020.

The Business Initiatives that involve stakeholder participation have their own processes which will provide initiative details and timelines as available, whereas the BRP is providing a high-level perspective of all of the Business Initiatives for general AESO budget planning purposes and alignment.

The AESO thanks IPPSA for their proposed process improvements and will consider all of the comments and perform a review of the BRP in 2020 to better meet the needs of its stakeholders.

Comment 2

Rationalize Strategic Initiatives to Reduce Trading Charge

- We asked the AESO to rationalize this list. However, no changes were made.

"Market Sustainability and Evolution"

i) "Changes to Market Structure..." Rationalize the scope of "Market Sustainability and Evolution" to achieve cost savings. The scope of these initiatives should be reduced to only that what is necessary to address the Minister's directions to the AESO.

ii) Remove "*Initiate design based on any changes in policy direction.*" This appears to be out of scope given the Minister's direction to retain the Energy-Only Market, or at least can be deferred until trading charge is reduced.

"Long-Term System Development" appears to be part of the AESO's routine duties. As such we don't believe this requires any new operating costs for the AESO.

"Stakeholder Engagement Framework" should have a minimal cost.

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“External Technology Plan” can be delayed given stakeholder interest in seeing a reduction in to the trading charge. We note that plan already includes the Energy Storage Roadmap which we believe has significant overlap for new near-term technologies.

AESO Response

The AESO’s 2020 Business Initiatives are initiatives that the AESO believes it needs to progress to deliver on its mandate, strategic plan and have been requested by stakeholders.

The scope of the “Market Sustainability and Evolution” activities is based on progressing market-related initiatives in 2020 that are important to the long-term sustainability of the energy-only market structure, to maintaining system reliability, and in ensuring the AESO is facilitating a fair, efficient and openly competitive (FEOC) market for an evolving electrical system while also providing certainty and stability to the market structure.

“Initiate design based on any changes in policy direction” refers to policy changes within the energy-only market resulting from the Minister’s July 25, 2019 direction for the AESO to provide advice on Market Power Mitigation and recommendations on whether changes are needed to the price cap, price floor and scarcity pricing.

This is part of base business and operating costs would be similar to prior years. While the long-term system development is a routine activity, there are at least two and possibly three major system NID applications that will be filed in 2020. These applications will go through the regulatory process which is quite resource intensive. This is why the long-term system developments have been highlighted in the budget considerations.

The AESO wants to improve how we engage stakeholders to ensure our approach continues to allow stakeholders’ needs and interests to be consistently, transparently and meaningfully considered. Implementation of the AESO’s Stakeholder Engagement Framework is expected to utilize existing internal resources across the organization. Costs associated with implementation are not expected to drive any additional or material costs.

The External Technology Plan is about how the AESO effectively ensures we are engaged in new technology developments that can impact/influence the electricity value chain. We are working through a plan and a process for us as an AESO to deliver on this need, and ultimately engage with industry and stakeholders on our views of these technology developments, potential impacts to our electricity industry and AESO mandate. Further, this plan is about how we would facilitate the integration of these new technologies into our network, markets, etc. This initiative has limited impact on current year operating costs.

Comment 3

Delay/Stage Some Initiatives to Reduce Costs in 2020

“Distributed Energy Resources Roadmap”

The AUC is conducting the Distribution System Inquiry and work on Distribution System Planning. The AESO’s work can be delayed/aligned with the outcomes of the AUC’s initiatives.

“Mothball Rule Review” – A review of the mothball rule occurred in 2018

“Dispatch Tolerance” –The review of dispatch tolerance can be postponed until there are changes/ experience with coal-to-gas conversions

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AESO Response

The AESO considers the evolving transformation of the distribution system and distributed energy resources as a key change in our industry having implications on our several areas of the AESO mandate, including Alberta Interconnected Electric System (AIES) reliability, markets, tariffs and transmission planning. As such our engagement in the AUC Distribution Inquiry, our DER Roadmap and our pending engagement in the distribution coordinated planning framework are all core to our business. This incremental work is cross functional across our business and is being absorbed within existing resources through prioritization. As such, there is not a single budget line item. The AESO provided a presentation of the AESOs DER Roadmap at the AUC Distribution Inquiry Module 1 technical conference. The DER Roadmap requires alignment and coordination with the DFOs and as such the AESO started engagement with the DFOs to align on scope and to obtain DFO input. The AESO has initiated some work around internal AESO processes and areas which affect the reliability of the AIES.

The work associated with the Mothball Rule Review and Dispatch Tolerance is part of the “Market Sustainability and Evolution” activities referred to AESO’s response to IPPSA’s comment 3, above.

Comment 4

Defer Salary Adjustments to Reduce the Trading Charge.

AESO Response

Through the BRP the AESO has reduced initial proposed staff compensation increase of \$2.0 million for salary market adjustment proposed to \$1.0 million. The proposed adjustment would be in alignment with continued salary restraint imposed by the Government of Alberta under the Salaries Restraint Regulation. In accordance with the Regulation, base salary adjustments are permitted for promotions; to correct salary inversion (a situation in which the base salary of an employee is greater than the base salary of the employee’s supervisor); and to correct salary compression (a situation in which the difference in base salary between employees is too small to be equitable). The *Reform of Agencies, Boards and Commissions Compensation Act* provides for these adjustments, for all public agencies, which is considered a necessity to retain and attract qualified personnel. Given the salary restraint has been in place since 2016, these situations continue to arise and cannot be mitigated beyond the staff reductions already implemented. The AESO, like all organizations, must plan for and manage attrition. As a result of attrition, current employees are replaced by employees at market rates. The difference in market rates from 2016 – 2020 creates an increase in salary costs over the amount budgeted when hiring for normal turnover. This is in addition to promotions and increases required to negate the secondary effects of salary inversion and compression. There have been no base salary pay adjustments since 2015. These items are not budgeted for within the base salary costs. The AESO instead provides full disclosure of the overall impact expected by noting the amount separately in an effort to be transparent.