

Stakeholder Comment Matrix – Dec. 10, 2020

Bulk and Regional Tariff Design Stakeholder Engagement Session 4



Period of Comment: Dec. 10, 2020 through Jan. 12, 2021	Contact: Richard Stout
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Instructions:

1. Please fill out the section above as indicated.
2. Please respond to the questions below and provide your specific comments.
3. **Please submit one completed evaluation per organization.**
4. Email your completed comment matrix to tariffdesign@aeso.ca by **Jan. 12, 2021**.

The AESO is seeking comments from Stakeholders on Session 4. Please be as specific as possible with your responses. Thank you.

	Questions	Stakeholder Comments
1.	Please comment on Session 4 hosted on Dec. 10, 2020. Was the session valuable? Was there something the AESO could have done to make the session more helpful?	The session was a valuable review of the tariff discussions to date including a clear explanation of why the status quo cost allocation approach has to be replaced, the impact of an alternative allocation, and the need for transitional mitigation.
2.	Do you have a view on whether an embedded or marginal cost allocation approach will more appropriately meet the AESO's rate design objectives? Why?	<p>The short answer is that it is too early to say if an embedded cost allocation approach based on an estimate of marginal transmission costs would meet the AESO's rate design objectives or lead to appropriate cost allocations.</p> <p>The long answer is that although marginal costs theoretically provide efficient price signals in well functioning markets they are very difficult to achieve in practice for regulated, cost-based rate designs. For cost of service based rate design, marginal costs tend to be employed as to <i>guide</i> to structural options (such as opportunity service) rather than as fundamental embedded cost allocators. When used for cost allocation purposes, instability and base-line disputes may arise.</p> <p>The load-facing marginal costs of transmission systems (other than for the local facility connection) are notoriously difficult to estimate. Bulk and Regional transmission system needs are based on complex technical security planning, and socio-economic considerations that are not easily related to measurable load billing determinants such as end-use energy or demand parameters.</p> <p>Additions to Bulk or Regional transmission systems arrive in large, long-lived and expensive increments that change the power flows, expansion needs and interconnection opportunities for generators and loads across wide areas of the interconnected system, leading to controversy over the actual need, timing, stability of, and the real meaning of marginal cost estimates for a transmission system.</p> <p>Marginal cost rate design considerations are even more challenging where price regulated transmission systems must be distinguished from energy price signals in an entirely separate but overlaid competitive energy and generation market.</p> <p>(Note: In the case of a generation capacity market marginal cost estimates may rely on the use of a gas-turbine proxy that would not be suitable as an estimate of the marginal costs of Bulk or Regional transmission systems).</p>

<p>3.</p>	<p>a) Do you have a preference for any of the mitigation options presented at Session 4? Why or why not?</p> <p>b) Do you know of any additional mitigation options that have worked in other contexts and might be applicable here. Please specify.</p> <p>c) What do you think the AESO's needs to achieve with its mitigation(s)? Why?</p>	<p>a) We do not have a particular preference for the mitigation options as long as this does not rely on maintaining the status quo tariff for any existing customer.</p> <p>b and c) The objective is to limit escalation of bills over a transition period for customers who would be most significantly impacted by a move away from the status quo.</p>
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	Questions	Stakeholder Comments
4.	<p>Are you supportive of the areas of agreement presented at Session 4? Why or why not? The areas of agreement presented include:</p> <p>Efficient Price Signals</p> <ul style="list-style-type: none"> • Price signals matter <ul style="list-style-type: none"> ○ Tariff charges provide incentives for customer behavior <p>Cost Responsibility</p> <ul style="list-style-type: none"> • Recognize that more than just load behavior drives transmission development • We are dealing with an evolving system <ul style="list-style-type: none"> ○ Current and future use may differ from what was that originally planned <p>Minimal Disruption</p> <ul style="list-style-type: none"> • Transmission costs have risen <ul style="list-style-type: none"> ○ Tariff charges are more important now than ever before • Minimize disruption, mitigate rate shock <ul style="list-style-type: none"> ○ It is not in anyone's interest to reduce the number of ratepayers 	<p>We are supportive of these general areas of agreement. Providing efficient price signals, reflecting cost responsibility, and minimizing disruption are all important aspects of Bonbright rate design considerations. Great care must be taken over how these considerations are interpreted and balanced however. For instance:</p> <ol style="list-style-type: none"> 1) The price signal provided by the transmission tariff must be distinguished from the price signal given by the distinct and competitive energy market. 2) The customer response to a transmission price signal may not be helpful. In particular, a perceived price signal based on an old vertically integrated cost allocation methodology may not have been intended as a price signal at all. 3) In the case of the Alberta Bulk and Regional transmission system that is legislated to provide unconstrained generator market-based dispatch it is very difficult to link any accepted metric of load behavior (energy, coincident or non-coincident demand) to Bulk and Regional transmission cost causation. 4) Even as the system evolves, the large sunk cost of assets must still be fairly recovered from all customers that benefit from connection to the system.

<p>5. Are you supportive of the areas of disagreement presented at Session 4? Why or why not? The areas of disagreement presented include:</p> <p>Efficient Price Signals</p> <ul style="list-style-type: none"> • Are status quo price signals are efficient? <ul style="list-style-type: none"> ○ Price signals in tariff have reduced the cost of energy to other load • Are price signals forward looking? <ul style="list-style-type: none"> ○ Price signals are efficient to the extent changes in customer behavior reduce the need for future transmission costs <p>Cost Responsibility</p> <ul style="list-style-type: none"> • Is the primary objective cost causation, or cost responsibility? • Does the initial rate design still achieve goal of cost causation since transmission costs have risen and load behaviour has not influenced those costs? <p>Minimal Disruption</p> <ul style="list-style-type: none"> • Now is not the time for change or time to stop the bleeding? <ul style="list-style-type: none"> ○ Economic climate, policy uncertainty, change impacts a few very negatively and many slightly positively • Does rate mitigation need to be permanent or will customers adapt if temporary? 	<p>What is commonly described as “price signals” within the Status Quo tariff based on 12CP cost allocations were not intended to be treated as price signals, and do not encourage efficient or desirable behavior on the transmission system.</p> <p>Energy prices are a separate consideration to transmission price signals in two very different systems. While responses to energy prices may reduce the overall cost of energy, responses to “status quo” transmission price signals simply transfer and increase transmission costs for the vast majority of customers who cannot see the “price signal” or respond to the 12CP monthly “interruption” option.</p> <p>Our understanding of cost causation on the Bulk and Regional transmission system is price driven load interruptions make little difference to future transmission costs. Since restructuring circa 2000, the Bulk and Regional transmission system has been built primarily to accommodate diverse market based dispatches of generation with minimal constraint (see response to question 4 above) rather than loads.</p> <p>“Efficient price signaling” to loads therefore carries little weight in transmission rate design when compared to other criteria such as the fair allocation of existing costs.</p> <p>We are not clear of the intended distinction between “cost causation” and “cost responsibility” unless this means that the cost <i>responsibility</i> of each customer is to pay a <i>fair share</i> of the existing system costs as explained above.</p> <p>The existing rate design does not reflect cost causation. The 12CP methodology was developed to reflect generation cost causation in a vertically integrated and centrally planned system with no separate energy market. In the monopoly system that existed prior to 2000 loads were considered to cause all costs because the entire network of generation and transmission was built as a <i>single</i> pre-optimized entity where the only significant planning determinant was served load.</p> <p>When the 12CP allocation was developed the transmission system supported only a <i>single</i> planned generation development and dispatch monopoly. Transmission costs were consequently minimal and could be considered to follow the pre-planned generation cost allocation. (Note: direct interruptible credits were available in this integrated pre-market world based on the costs of a proxy gas-turbine. This was considered to avoid some marginal <i>generation</i> costs but was not considered to avoid any <i>transmission</i> system costs).</p> <p>The integrated monopoly conditions that supported the use of 12CP no longer apply. Transmission system cost causation has been dramatically changed to support multiple unconstrained dispatch options in an unplanned and competitive</p>
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		<p>energy market. Continued use of an outdated and unintended 12CP “price signal” has resulted in unfair cost transfers.</p> <p>It is important to “stop the bleeding” as soon as possible as it effects all customers in every part of the economy. The change is most effectively and practically made in the upcoming filing as ordered by the AUC. As a practical matter it will be three years before the changes affect customer bills when the economic climate will hopefully have improved and policy uncertainty resolved. Even then, a mitigation mechanism will be provided to minimize any substantive negative impact.</p> <p>Rate mitigation need not be permanent and can be phased out over 5 to 10 years.</p>
6.	<p>Are there considerations that the AESO could include in its rate design proposal that would move you to at an area of agreement on any of the areas of disagreement (refer to question 5 above)? Please specify.</p>	<p>None known.</p>
7.	<p>Are you supportive of the areas of agreement for energy storage presented at Session 4? Why or why not?</p> <p>Energy storage areas of agreement:</p> <ul style="list-style-type: none"> • Energy storage is unique in that it is not the producer or the end consumer of electric energy, nor is it the transmitter • Energy storage can participate in Alberta’s electricity use-cases by providing <ul style="list-style-type: none"> ○ Energy Price arbitrage ○ Operating Reserves ○ Non-wires solutions for transmission deferral • Energy Storage should be treated in a fair, efficient, and openly competitive (FEOC) manner 	<p>We are supportive of the general areas of agreement with regard to energy storage.</p>

8.	<p>Are you supportive of the areas of disagreement for energy storage presented at Session 4? Why or why not?</p> <p>Energy storage areas of disagreement:</p> <ul style="list-style-type: none"> • Is energy storage a user of the grid or a component of the grid or both? • Does energy storage use the network for the Alberta specific use-cases? • Should energy storage pay for inflows and outflows like every other network user or not? • Should energy storage pay for one or more of administration, operations and maintenance, pod, regional, bulk charges? 	<p>These areas require more careful consideration as different possible roles that are mutually exclusive require different tariff treatment or applicability.</p> <p>For instance, energy storage operators may use the grid to arbitrage energy prices, in which case STS and DTS tariffs would be applicable like any other network user (such as a load with a BTF generator). On the other hand, where energy storage units contract with the AESO to provide a non-wires solution intended to defer a transmission build, then STS and DTS tariffs would clearly not be applicable.</p> <p>The transmission cost components that energy storage operators pay to use depend on the agreed role of the facility as described above.</p>
9.	<p>Are there considerations that the AESO could include in its rate design proposal that would move you to at an area of agreement on any of the areas of disagreement for energy storage (refer to question 8 above)? Please specify.</p>	<p>None known.</p>
10	<p>Do you have any comments on the AESO's proposed stakeholder engagement process, including the mitigation process, for the remainder of the Bulk and Regional Rate Design engagement?</p>	<p>Not at this time. We are looking forward to the next stage of development.</p>
11	<p>Do you have additional clarifying questions that need to be answered to support your understanding?</p>	<p>As above</p>
12	<p>Additional comments</p>	<p>We appreciate all of the efforts that the AESO has made to resolve this issue.</p>

Thank you for your input. Please email your comments to: tariffdesign@aeso.ca.