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ALBERTA
ELECTRIC
SYSTEM
OPERATOR

May 4, 2005

Mr. Kellan Fluckiger
Executive Director, Electricity Division
Department of Energy
6th Floor, North Petroleum Plaza
9945 – 108 Street
Edmonton, AB T5K 2G8

Dear Mr Fluckiger;

Re: Transmission Regulation Implementation Plan Project

The AESO is working with stakeholders to implement the Transmission Regulation (“the Regulation”) as per its implementation plan. During the stakeholder consultation meetings a number of concerns/issues have emerged. These concerns/issues can be grouped as technical challenges and others are related to interpretation and application of the Regulation. The AESO will continue to work with the stakeholders and develop solutions that are practical.

The purpose of this letter is to apprise the Department of Energy with these concerns/issues and actions taken by the AESO. A brief discussion along with how the AESO is addressing these concerns/issues is as follows:

1. **Loss Factor Methodology and ISO Rule.**

   Issue # 1: Loss Charges/Credits for Imports and Exports

   - Some market participants have indicated that s. 22(2) of the Regulation does not permit the AESO to provide a credit to "a person receiving transmission service under an interruptible service arrangement for load, import or export…" The argument is based on a principle of statutory interpretation that says if credits were permitted, the Regulation would have specified so, particularly since specific reference was made to "charges or credits in s 22 (1). Although other sections of the Regulation refer to charges and credits, s. 22(2) only refers to charges. From a technical perspective, interruptible imports and loads may in fact provide a net benefit to reduce losses, therefore providing a credit seems fair and reasonable.

   Discussion:

   - The AESO’s assessment is that the above interpretation does not take into consideration the remaining words of s. 22(2). Those words appear to provide for an exception to s. 19(2) (f) in that they specifically provide that "full costs" must be recovered. S. 19(2) (f) requires the application of a compression factor to limit charges and credits, respectively. Therefore, this section would not apply to charges under s. 22 (2), given its express wording. It is arguable that s. 22(2) was inserted to address a different treatment of "charges' for those services specified in the section. As s. 22 (2) is silent regarding credits, it could be argued that these are permitted but would be subject to the s. 19(2)(f) compression.

- Stakeholders agree that interruptible importers or exporters should receive a credit where a transaction reduces system losses.

- The AESO in its rule will provide a credit to interruptible importers and loads where these services reduce system losses.

- Future amendments to the Regulation could include clarification so that there is no doubt that credits or charges apply to interruptible imports, exports and loads.

Issue # 2: Interruptible Imports and Exports

- The Regulation contemplates firm and interruptible imports and exports [as per ss. 22(1)(b) and 22(2)]. The implication is that firm imports would receive a compressed loss factor and interruptible imports would not receive a compressed loss factor. Application of these sections in this manner would result in interruptible importers receiving a larger credit than Alberta generators.

Discussion

- The AESO currently defines import and export as opportunity services. Both the current ISO Tariff and the proposed ISO 2006 General Terms and Conditions for import and export services, indicate the service is recallable with one hour notice.

- The long standing Alberta practice has been to consider imports and exports as firm for the hour. Under these circumstances it would be unfair to provide importers a larger credit than Alberta generators.

- The AESO considers that loss factors for firm imports, interruptible imports and loads should be compressed as per s. 19(2) (f) of the Regulation to create a level playing field between importers and intra-provincial generators. This will also simplify the administration and reduce the overhead associated with loss calculations and is therefore a practical and appropriate approach.

- The AESO rule will allow compression of loss factors for interruptible imports and and loads.

Issue # 3: Compression Technique

- S.19(2) (f) of the Regulation states that "...every loss factor must be multiplied by a common number in order to limit the loss factors...". This provision has proven to be a major challenge to implement.

Discussion:

- The AESO has developed a compression methodology that adjusts loss factors to within the specified envelope using a simple technique. The proposed compression methodology involves both clipping of loss factors that are outside of the loss factor envelope and then applying linear compression to all other loss factors. This methodology is not exactly as prescribed by the Regulation (i.e. all loss factors be multiplied by a "common number") as that approach has proven to be impractical to implement. The new methodology developed is generally supported by the stakeholders and provides a transparent method which produces results that are representative of generator losses. In other words, we believe it meets the intent of the Regulation.

- The AESO will develop rules in accordance with this methodology. This will result in the AESO may not be in full compliance with 19(2) (f). To address this we suggest that an amendment be made to the Regulation to provide that all loss factors will be “adjusted by a common method”. Please advise if you do not expect this amendment to be likely or if you are not in agreement with our approach.

Issue # 4: Phased implementation (Transition Mechanism)

- Some stakeholders have requested that the new loss factors be phased in over a period of time (i.e. up to five years) in order to deal with the large step change in charges or credits for some generating plants. These stakeholders cited the Transmission Policy (appendix) which describes limiting the annual change of area loss factors to 2-3% in order to provide stability to the loss factors. Other stakeholders have raised concerns and have issues with a phased in approach and are not supportive of a transition mechanism.

Discussion:

- The Regulation is silent regarding provision of a transition period for implementing the new loss factor methodology. The Regulation specifies that the AESO must make rules respecting loss factors, charges and credits and that the AESO must have regard to matters outlined in s. 19 (2) in creation of these rules.

- The AESO intent was to implement the new loss methodology on January 01, 2006, coincident with the new tariff provisions.

- The AESO will continue to discuss this matter with stakeholders and will propose transition options for consideration by stakeholders with the objective of achieving consensus.

Issue # 5: Inclusion of Transmission Must Run in loss factor calculations

- Some stakeholders have requested that the new loss factors be calculated excluding TMR. They consider that the inclusion of TMR in loss calculations results in the inappropriate muting of locational signals.

Discussion:

- Section 19(2) (c) of the Regulation states that "...loss factors must be determined ... as if no abnormal operating condition exists…" The term “abnormal operating conditions” is defined in the Regulation.

- The AESO considers provision of TMR to be part of “normal system operation” and therefore will include it in the loss factor calculation.

2. Transmission Facilities Construction and ISO Rule

Issue # 6: Penalties and Sanctions

- Some stakeholders indicated that they understood s. 12 (2) to mean that a TFO eligible under s. 12 (1) as a result of a s. 12 (2) exception, would not be obligated to comply with the ISO rules. This question arose during our working group discussion of penalties or sanctions available to the ISO for non-compliance with the rules.

Discussion:

- This appears to be premised on a misunderstanding of the purpose of s. 12 (2). It is the AESO's interpretation that it is intended to permit the AESO to grant exceptions to designating only one TFO as the only eligible TFO in a specific "geographic area", in circumstance where two TFO's can come to an appropriate agreement. It is not intended, nor does it have the effect, of exempting a TFO from its obligation to comply with applicable ISO rules.
- The AESO rule will implement this interpretation.

Issue # 7: Transmission Projects Providing Interconnection Capacity with other Jurisdictions

- S. 15 of the Regulation excludes transmission lines to neighboring jurisdictions from the application of s 12(1) in order to enable third parties to build these facilities. S. 15 describes certain procedures with respect to third party proposed interconnection projects. However, the Regulation makes no specific reference to interconnection projects with other jurisdictions when they are required for system reliability purposes.

- The AESO will address in its rules made pursuant to s. 12 of the Regulation, issuing a "direction" to a TFO for interconnections with other jurisdictions that are required for system reliability purposes. Under these circumstances the AESO will follow the TFO eligibility requirements defined for transmission projects within Alberta.

- The AESO rule will implement this interpretation.

The AESO will provide an update as the Regulation implementation project progresses.

Yours truly,

Dale McMaster
Chief Operations Officer

cc: Neil Millar, VP Transmission
Jerry Mossing, Director, Operations Planning