



Alberta Electric System Operator

2020 Rider A1 Extension Application

December 14, 2020

Alberta Utilities Commission

Decision 25670-D01-2020

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Proceeding 25670

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1 Introduction

1. On July 9, 2020, the Alberta Electric System Operator (AESO) filed an application with the Alberta Utilities Commission requesting an extension of Rider A1 to its Independent System Operator (ISO) tariff, pursuant to sections 29, 30 and 119 of the *Electric Utilities Act*. The rider was originally approved for the Dow Fort Saskatchewan plant complex by the Alberta Energy and Utilities Board (board), predecessor to the Commission, on July 24, 1998, in Decision U98125,¹ for a period of 24 years, ending in December 2021. In the current application, the AESO requests the approval of a 20-year extension, from January 1, 2022, to December 31, 2041.

2. On July 13, 2020, the Commission issued a notice of application. Interested parties were requested to file statements of intent to participate (SIPs) by July 24, 2020. Two parties registered to participate, AltaLink Management Ltd. and Dow Chemical Canada ULC (Dow), the operator of the Dow Fort Saskatchewan plant complex.

3. Between August and October, 2020, there were three rounds of information requests issued by the Commission to the AESO. The Commission considers the record of the proceeding to have closed on October 20, 2020, when the AESO responded to the third round of information requests.

2 Background

4. As described by the AESO in its application,² Rider A1 is a transmission duplication avoidance tariff originally adopted to provide Dow with system access service in response to Dow's credible opportunity to construct a physical bypass of existing transmission facilities. Rider A1 was designed to keep Dow neutral between the cost of using existing transmission facilities or building its physical bypass option.

5. The AESO originally applied for a 20-year extension of Rider A1 in Proceeding 22942. The Commission denied the extension request,³ because (i) there was no basis upon which to determine that Rider A1 should be extended automatically; and (ii) there was no evidence on the record to demonstrate that Dow's operations met the criteria for an industrial system designation (ISD).

¹ Decision U98125: Grid Company of Alberta Inc., Transmission Bypass Avoidance Rate, Dow Transmission Bypass, File 5603-1, Application RU97276, July 24, 1988.

² Exhibit 25670-X0002, application, paragraphs 4-5.

³ Decision 22942-D02-2019: Alberta Electric System Operator, 2018 ISO Tariff Application, Proceeding 22942, September 22, 2019, paragraph 313.

6. Two applications were filed in response to the Commission's denial of the Rider A1 extension: (i) the AESO's application for Rider A1 considered in the current proceeding (25670); and (ii) Dow's application seeking the approval of an ISD for the Dow Fort Saskatchewan plant complex in Proceeding 25696.

7. While the AESO requested that both applications be considered in a single proceeding,⁴ the Commission denied the request⁵ because it was not satisfied that joint consideration was necessary.

8. In reaching the determinations set out in this decision, the Commission has considered all relevant materials comprising the record of this proceeding. Accordingly, reference in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to this matter.

3 Extension of Rider A1

9. As part of the original Rider A1 application approved in 1998, Dow made two monetary contributions totalling \$5,071,038 to the AESO related to the costs of the physical facilities. A schedule was also created for Dow to pay ongoing operating and maintenance (O&M) costs over a 24-year period, ending on December 31, 2021. The monthly payment approved for Rider A1 varied from a high of \$72,115 in 1999, to a low of \$19,361 in 2021.

10. As part of the extension the AESO included the incremental loss factor and a schedule of monthly O&M payments from Dow to the AESO for the period from January 1, 2022, to December 31, 2041. These monthly payments gradually increase from \$21,037 in 2022, to \$30,647 in 2041.⁶ The AESO submitted that an extension to the rider was reasonable, because had the facilities contemplated in Decision U98125 been constructed, they would have had a service life of 40 – 60 years.⁷

11. The AESO explained that its proposed form of Rider A1 extension continues the original 24-year operating cost payment schedule to December 31, 2041,⁸ and that Dow has agreed to set those payments according to the same methodology used in 1998.⁹ This methodology was based on the estimated costs of operations and maintenance, spare parts inventory, overhead, and losses that the virtual transmission assets would have incurred.

⁴ Exhibit 25670-X0001, LT AUC re: AESO 2020 Rider A1 Extension Application.

⁵ Exhibit 25670-X0021, AUC letter – Ruling on request for joint consideration of applications in proceedings 25670 and 25696.

⁶ Exhibit 25670-X0004, Appendix B Blackline of Proposed Rider A1 Extension to Rider A1 of the 2018 ISO Tariff; Exhibit 25670, application, paragraph 7.

⁷ Exhibit 25670-X0002, paragraph 13.

⁸ Exhibit 25670-X0003, Appendix A – Proposed Rider A1 Extension.

⁹ Exhibit 25670-X0002, paragraph 14.

4 Commission findings

12. In considering the AESO's application, which concerns an extension of a duplication avoidance tariff (DAT) under its tariff, the Commission finds that it is of assistance to review the guidance provided by the board in Decision 2002-019 on the criteria to be applied in such an application:¹⁰

FIRM^[11] submitted that IOL [Imperial Oil Limited] should not have the discretion to extend the DAT beyond the end of its proposed 29-year Term. Since circumstances might change over the Term of the DAT, FIRM submitted that any extension of the DAT should only occur by agreement between both parties. FIRM also considered that the TA [Transmission Administrator] should make no commitment to limit consideration of the costs of any extension of the Term of the DAT.

EAL appeared to agree with FIRM. However, the Board is concerned that, as presently proposed, the DAT may not reflect and address these concerns. **Therefore, the Board directs EAL to incorporate into the DAT language expressly providing that any extension of the Term of the DAT must be by agreement between the parties with notice to the Board and interested parties. This would provide adequate opportunity for a review of the reasonableness of the extension.** Interested parties will have the opportunity to review the language proposed by EAL [ESBI Alberta Ltd.] before final approval of the DAT. [emphasis added]

13. The Commission has applied these criteria in this proceeding. That is, the extension of the term of the DAT should be: (i) by agreement of the parties; (ii) with notice to the Commission and interested parties; and (iii), reasonable.

14. The Commission is satisfied that the first two criteria noted in paragraph 13 have been met. The AESO and Dow agreed on the terms of an extension in order to submit this application, and by virtue of its filing, both the Commission and interested parties have had notice.

15. With respect to the reasonableness of the extension, the Commission finds that the factors considered by the board when it granted the initial bypass to Dow also provide some guidance.

16. In Decision U98125, the board evaluated the application for a bypass avoidance rate for Dow on the basis of the following principles:

- Would the statutory provisions under the *Electric Utilities Act* in effect allow Dow to bypass the act's requirements to obtain transmission service from the distribution owner as set out in Section 5 of the act?¹² The board found that because the facilities had not yet been constructed, it was difficult to determine whether Dow could fit within the exemptions under that act. However, it was prepared to interpret the act sufficiently

¹⁰ Decision 2002-019: ESBI Alberta Ltd. Duplication Avoidance Tariff Application – Imperial Oil Cold Lake Industrial Site, Proceeding 5864, Application 2001187-1, February 14, 2002, PDF page 35.

¹¹ FIRM Customers for 1999/2000 EU decisions consisted of Alberta Association of Municipal Districts and Counties, Alberta Federation of Rural Electrification Associations Ltd., Alberta Irrigation Projects Association, the Consumers' Coalition of Alberta, Municipal Intervenors, Public Institutional Consumers of Alberta and Senior Petroleum Producers Association.

¹² Section 5 of the *Electric Utilities Act*, as it then was, required a customer to obtain transmission service from the owner of a distribution utility in whose service territory it is located, unless it had an exemption.

broadly to find that Dow may have been able to fulfil the statutory prerequisites of an exemption.

- Was Dow's physical bypass option economically viable? The board found that it was both technically and physically viable and that Dow was well-positioned to meet its own requirements at a significantly lower cost than annual transmission charges for the use of the existing transmission facilities.
- Would the rider prevent the unnecessary construction of redundant facilities and shelter transmission customers from the costs of absorbing stranded assets? The board found that it would.
- Was the rider amount no more attractive than was reasonably required to avoid duplicate facilities? The board found that it was.

17. Applying these principles to the extension requested here, the Commission finds that:

- (i) While reference numbers to some of the statutory provisions may have changed, the underlying legislative scheme that requires a customer to obtain service from the distribution utility in whose service area the customer resides, unless an exemption exists, remains in force. Customers who have approved designated industrial systems are permitted to self-supply and are exempt from this obligation. Pursuant to Section 117(1) of the *Electric Utilities Act*, an industrial system designation order issued by the Commission includes a condition specifying that the electric energy produced from and consumed by the subject industrial system is exempt from the operation of the *Electric Utilities Act*. Accordingly, the granting of the ISD confirms that Dow satisfies the statutory prerequisites for an exemption.¹³
- (ii) The bypass rate was approved on the basis that a bypass facility would have been economically viable and if it had been built, it would have been in service for roughly 40 to 60 years. The extension reflects the end of the 40-year period and on this basis, the Commission finds the extension to reasonably represent a viable bypass option.
- (iii) The O&M payments agreed upon by the AESO and Dow are reasonable. The AESO is responsible for the day-to-day operations of the Alberta Interconnected Electric System, understanding the future transmission needs for Alberta and pursuant to Section 30 of the *Electric Utilities Act*, for preparing a tariff whose charges reflect the prudent costs that are reasonably attributable to each class of system access service. In fulfilling these responsibilities, the AESO has negotiated a rate rider amount for ongoing O&M. The Commission accepts the AESO's evidence that the rate negotiated is reasonably reflective of the remaining O&M costs and is no greater than reasonably required.

¹³ Decision 25696-D01-2020: Dow Chemical Canada ULC, TransAlta Cogeneration Ltd. and Prairie Boys Capital Corporation, Dow Fort Saskatchewan Industrial Complex Industrial System Designation and Ownership Transfers, Proceeding 25696, Applications 25696-A001 to 25696-A006, October 23, 2020.

18. Accordingly, for all of the above reasons, the Commission approves the extension of Rider A1 as filed, for the period from January 1, 2022, to December 31, 2041.

5 Order

19. It is hereby ordered that:

- (1) The term of Rider A1 is extended from January 1, 2022, to December 31, 2041 and the associated new rider payments are approved as filed.

Dated on December 14, 2020.

Alberta Utilities Commission

(original signed by)

Anne Michaud
Vice-Chair

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
Alberta Electric System Operator (AESO)
Dow Chemical Canada ULC (Dow)
AltaLink Management Ltd. (AltaLink)

Alberta Utilities Commission
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