

# Stakeholder Comment Matrix – March 25, 2021

## Bulk and Regional Tariff Design Stakeholder Engagement Session 5



<b>Period of Comment:</b> March 25, 2021 through April 15, 2021	<b>Contact:</b> Colette Chekerda
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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](mailto:tariffdesign@aeso.ca) by **April 15, 2021**.

***The AESO is seeking comments from Stakeholders on Session 5. Please be as specific as possible with your responses. Thank you.***

Questions	Stakeholder Comments
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<p>1. Please comment on Session 5 hosted on March 25, 2021. Was the session valuable? Was there something the AESO could have done to make the session more helpful?</p>	<p>The session was valuable, but based on the significant change in direction of the bulk and regional tariff proposal, the AESO should have been prepared with more details and supporting evidence.</p> <p>Specifically:</p> <ol style="list-style-type: none"> <li>1. Supporting evidence that 31% of Alberta's bulk and regional costs were incurred to support in-merit energy flows. The CTI projects were built to minimize land use impact and for future growth. The AESO needs to provide evidence that the costs incurred for these projects are consumption based. The AESO must publish the peak flows on the CTI lines relative to the design parameters so that Albertans understand how the investment in transmission is being used. Further, the AESO must specifically examine the Heartland line. It was designed for 500 kV operation and has only ever been operated at 240 kV. A minimum system approach would consider the system that Alberta needs to support our energy market and peak load and compare that to the system we have built. The difference then can be examined for cost responsibility and tariff treatment.</li> <li>2. An energy-related allocation of transmission costs is inefficient because it gives equal weight to all hours of the year, even late night and early morning hours of the day when the loading of transmission lines is typically at its lowest. The AESO has not demonstrated that specific transmission lines have been constructed in Alberta to alleviate congestion in order to support in-merit energy flows. In particular, no evidence has been presented to demonstrate that bulk transmission lines have been constructed specifically to alleviate congestion in off-peak hours in order to facilitate in-merit energy flows. Absent such evidence, there is no factual basis to support an energy-based allocation of fixed transmission costs.</li> <li>3. The minimum system approach that the AESO has employed to identify demand-related transmission costs is unorthodox. Minimum system analyses are typically used in the context of functionalizing a portion of distribution wires costs as customer-related, not demand-related. Fixed, sunk transmission investments are demand-related costs that vary with increases in peak demand and are not related to connecting customers to the system. The AESO's minimum system approach is a significant departure from accepted allocation methods for transmission costs that have been employed</li> </ol>
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	<p>by Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) in the U.S.</p> <p>4. The coincident peak (CP) demand allocation method is the standard allocation method for network transmission costs approved by the Federal Energy Regulatory Commission (FERC). The FERC’s pro-forma Open Access Transmission Tariff (OATT) applies a 12CP allocation method for network transmission costs, and the 12CP method is the established allocation method for bulk transmission costs that is predominantly employed by RTOs and ISOs in the U.S. to allocate transmission costs. The Electric Reliability Council of Texas (ERCOT) region relies on a 4CP allocation method for transmission costs. Even where bulk transmission costs are allocated to RTO/ISO sub-regions using other methods such as production cost simulations to determine the distribution of project benefits within the RTO/ISO region, the project costs are predominantly allocated to bulk transmission customers using a load ratio share demand allocation that is based on customer demands at the time of the peak. Energy-related allocation of transmission costs are unorthodox and are not widely used. Therefore, the AESO’s proposed tariff design in fundamentally inconsistent with the transmission cost allocation methods that are generally employed by RTOs and ISOs in the U.S.</p> <p>5. The AESO has acknowledged that they have completed no analysis on the long term tariff change implications to Alberta’s economy. This rate significantly increases costs of Alberta’s most electricity intensive and trade exposed industrial facilities.</p> <p>ADC members alone are facing over \$10M in annual transmission cost increases as a result of the AESO proposal. Alberta Industry will respond to this price signal in three ways: (i) further cost cutting measures such as job losses or shutdowns of high cost facilities; (ii) move production and future expansion plans to other jurisdictions where power prices and electricity policy are more favorable and stable; or (iii) defect from the Alberta grid and self supply, including completely defecting from the grid if Alberta’s self supply and export policy limits companies’ ability to manage electricity costs. All three of these responses will result in the exact outcome that the</p>
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	<p>AESO proposes is the driver for this redesign – allocation of costs to a shrinking base of rate-payers.</p> <p>6. The explanation for the 5 year 12 CP was confusing and it still isn't clear what the supporting evidence is for this change. Historically, the 24 month ratchet was unusually long, in fact twice as long as compared to other jurisdictions such as BC, Saskatchewan and Manitoba. Under current terms and conditions, the AESO requires 5 year notice to changes in DTS capacity. Having the 12 CP ratchet also be 5 years is not providing any better information for planning than what already exists with the notice requirements. This appears to be an unnecessary complication.</p> <p>7. The AESO had over two years to study the Bulk and Regional costs. It is concerning that after that period of time, the AESO has not produced any fully developed cost causation study to support the proposed design. This should have accompanied the presentation. The AESO's rate design proposal relies on an inadequately supported assertion that 31% of Alberta's bulk system transmission costs have been incurred to facilitate in-merit energy flows and are energy-related. The AESO has not provided an analysis of system power flows or an analysis of the drivers for specific transmission investments to support this assertion. Moreover, the AESO has not provided an updated cost of service study to demonstrate how underlying system conditions and operating characteristics have changed in a manner that would support an increase in the energy-related percentage of the bulk transmission cost allocation from 7% under current rates to 31%. The AESO should identify what it believes has changed on the bulk transmission system since the last cost of service study approved by the AUC that would justify the proposed change in rate design, and it should provide an updated cost of service study that reflects any new cost drivers for system transmission additions that it claims to have identified. Further, the AESO is in a unique position to bring forward legislative recommendations to the Government to implement in the upcoming review of the transmission regulation that would provide for a real cost responsibility discussion.</p>
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2.	<p>Please comment on Technical Information Session II hosted on March 31, 2021 (if you attended). Was the session valuable? Was there something the AESO could have done to make the session more helpful?</p>	<p>This was helpful. The AESO needed to have the tariff parameters based on 2020 and the 2021 revenue requirement as well as an updated cost projection model.</p>
3.	<p>Are you supportive of the AESO's preferred rate design? Why or why not?</p>	<p>The ADC is <b>not</b> supportive of the AESO tariff design. The move to energy allocation is not reflective of the sunk nature of the transmission system costs and penalizes the high load factor and price responsive customers which are the most efficient users of the transmission system. Transmission costs are fixed costs that do not vary with changes in energy consumption. Therefore, energy-related allocation methods for transmission costs are fundamentally inconsistent with the fixed, sunk nature of transmission investment. The size of the bulk transmission system, as well as the magnitude and timing of transmission system additions, are primarily driven by system peak demand patterns that are reflective of congestion on the system, which congestion primarily occurs during the peak hours. An energy allocation of transmission costs inappropriately gives equal weight to all hours of the day and the year and fails to properly focus the price signal on the peak demand hours that are most likely to exhibit transmission congestion and drive the need for system additions. The beneficiaries of the AESO's proposed rate design are low load factor customers who use the system inefficiently. Many of these low load factor customers have individual customer peaks that closely correlate to the system peak, particularly residential heating/cooling loads. However, their energy usage drops off dramatically after the peak hours. By contrast, high load factor customers whose costs would increase under the AESO's proposal consume a significant proportion of their energy during off-peak hours when transmission congestion is unlikely to be a concern. A rate design that rewards low load factor usage and penalizes price responsive, high load factor usage is inefficient and will discourage efficient use of available transmission capacity during off-peak periods.</p>

Questions	Stakeholder Comments
<p>4. Do you believe the AESO's preferred rate design meets the AESO's rate design objectives? Why or why not?</p> <p>a) <u>Reflect Cost Responsibility</u> (Cost recovery is based on cost causation, reflecting how transmission customers use the existing grid*)</p> <p>b) <u>Efficient Price Signals</u> (Price signal to alter behavior to avoid future transmission build)</p> <p>c) <u>Minimal Disruption</u> (Customers that have responded to the 12-CP price signal and invested to reduce transmission costs are minimally disrupted)</p> <p>d) <u>Simplicity</u> (Simplicity and clear price signals while achieving design objectives)</p> <p>e) <u>Innovation and Flexibility</u> (ISO tariff provides optionality for transmission customers to innovate while not pushing costs to other customers)</p> <p>*AUC Decision 22942-D02-2019</p> <p>**Proposed rate design must fit within current legislation</p>	<p>a) No. The notion that the transmission system is designed for in-merit energy with an energy cost element that is the same in each hour does not reflect cost responsibility. If the AESO can provide evidence that 40% of system costs are energy related and for in-merit energy, then the recommendation should have been that these costs be allocated to in-merit generation and then flowed through pool price offers when those generators are running. This will create a shaped price that is reflective of when generators are using the grid.</p> <p>b) Yes, the tariff proposal is signaling that Alberta does not value high load factor or flexible loads and that those companies should find alternatives to grid usage.</p> <p>c) No, this proposal is extremely disruptive to the seven sites identified for mitigation as well as the 28 sites identified as high load factor customers. For the seven sites, a permanent mitigation plan is required otherwise these sites will run to failure. For the other 28 high load factor sites, a change to the proposal is necessary.</p> <p>d) No, the 5 year 12 CP look back is unnecessarily complex and doesn't provide any better planning information than the current notice requirement.</p> <p>e) No, Alberta's energy intensive industrial sites have extensively pursued energy efficiency projects, demand response projects, and have participated in AESO programs such as operating reserves and LSSI. These sites have used every lever available to them to try to reduce power costs. They are simply running out of alternatives to remain competitive in Alberta outside of grid defection.</p>
<p>5. Are there considerations that the AESO should include, exclude and/or modify in its preferred rate design to better achieve the AESO's rate design objectives? Please specify and include your rationale.</p>	<p>The AESO should include the impact to Alberta's competitiveness as part of the rate design objectives. The only way Alberta solves the overbuilt Alberta Grid problem is to grow our way out of it. This will only happen if industry invests in Alberta and brings jobs and growth with it. ADC submits that the proposed rate will disincen investment in Alberta and thus have an opposite impact..</p> <p>In a perfect world, the AESO would resolve the tariff matter with a thoughtful engagement with policy makers to inform legislative changes with a goal of making Alberta and attractive place to invest and grow business.</p>

6.	<p>Please describe any areas in which you are aligned with the AESO's preferred rate design.</p>	<p>The ADC view is that the tariff proposal was rushed, ignored prior consultation and has no supporting study shared with loads to support the new direction.</p>
7.	<p>Are the assumptions the AESO used for the rate impact reasonable? Is there additional information that would help improve your understanding of rate impacts?</p>	<p>The AESO has used a look back approach to determine rate impacts based on response to the current tariff. Different price signals, specifically a lower CP charge and the 5 year CP averaging will alter the response and the rate impact. The AESO should have provided a forward looking model that starts with the 2021 revenue requirement and forecasts the tariff out for the next 10 years including sensitivities for DTS load growth or reduction. This would allow customers to model the impact of response to new signals and the resulting impact to their business and productivity. This modelling would inform the rate design and provide tariff outlooks in various load growth scenarios.</p>
8.	<p>Are you supportive of the AESO's consideration of modernizing DOS, including its suitability for an energy storage charging capacity? Why or why not?</p> <p>And if so, provide your comments on the consideration of the AESO's DOS eligibility requirements, including for energy storage.</p>	<p>Yes, the ADC is supportive of the AESO modernizing the DOS tariff.</p> <p>The ADC offers no perspective on the suitability of DOS on energy storage.</p>
9.	<p>Please describe what components of the current DOS implementation (i.e., rate, terms, and conditions) limit the use of excess transmission capacity (i.e., capacity that would not otherwise be used under Rate DTS).</p> <p>How might those components of DOS be improved?</p>	<p>In particular, minimum billed energy usage should be eliminated as it makes DOS very expensive as an insurance product for exceeding DTS levels during planned outages.</p>
10	<p>Do you have any comments on the AESO's targeted engagement approach for mitigation discussions?</p>	<p>ADC's concern with the approach is that there may be other similar loads as the ones targeted for mitigation that didn't get screened in the AESO analysis. The preferred mitigation is to provide a rate alternative to interruptible loads that is not exclusive to the seven sites in question.</p>

<p>11</p>	<p>Are there further considerations that the AESO should include, exclude and/or modify in the mitigation option starting principles? Please specify and include your rationale.</p> <ol style="list-style-type: none"> <li>1. <u>Limit the rate impact for customers</u>: Mitigate rate impact to under 10 per cent increase to a party's transmission bill for initial stage of transition</li> <li>2. <u>Adapt with design and rates</u>: Ensure options are adaptable to changes to the proposed design and forecast rates</li> <li>3. <u>Consistent application</u>: Mitigation options can be applied consistently across all impacted loads and not be individually defined</li> <li>4. <u>Administrative simplicity</u>: Feasible to implement with current tools and systems</li> <li>5. <u>Mutually acceptable</u>: Account for feedback from broad stakeholder group</li> </ol>	<p>A 10% increase in transmission costs to the seven sites will impact the commercial viability of these operations. This puts jobs, investment, tax base, and community support at risk, and has second order impacts to other dependent industries. In the end, the 10% increase also puts at risk the existing revenue contributed under the current tariff.</p> <p>These companies have invested millions of dollars in demand response to remain competitive in their respective industries. They sacrifice production daily to respond to pool prices and respond to coincident peak demand. They also put their load at risk to support Alberta grid reliability in operating reserves and under frequency response. They are essentially a 400 MW generator that shows up when the Alberta grid is stressed. They are energy intensive and trade exposed and can't flow through the cost increase to their customers. The narrative that they don't pay "their fair share" is frankly offensive.</p> <p>These customers raised competitiveness concerns a decade ago when Bill 50 was enacted. They told elected officials and the AESO that they couldn't afford the CTI projects being legislated and advocated for a less expensive solution. They do not understand how shifting millions of dollars to these customers (as well as the other high load factor customers) for an unnoticeable decrease in residential and commercial transmission costs is going to magically make everyone happy about a \$2.4B and climbing annual revenue requirement. A rate reduction for all could be achieved by tackling the hard topics of cost containment, transmission regulation, and returns on equity for regulated monopoly utilities.</p>
<p>12</p>	<p>Based on the AESO's mitigation options assessment, are there further considerations that the AESO needs to include, exclude and/or modify (e.g., temporary versus permanent)? Please specify and include your rationale.</p>	<p>Ideally the rate works for everyone, without mitigation and the industry focuses on reducing the overall transmission system costs.</p> <p>Anything temporary signals a run to failure path forward to these industries.</p>
<p>13</p>	<p>Are you in favour of some type of mitigation? Why or why not? If you are in favour of some type of mitigation, how would you assess whether a proposed mitigation approach is acceptable?</p>	<p>Impacted members will participate in the process.</p>

14	In your view, should the AESO provide participants with more flexibility to adjust contract capacity, specifically by way of a contract reset period with the implementation of new rates and/or a PILON waiver if the contract level has not changed in the previous five years?	<p>Yes, the ADC recommends an opportunity for all customers to right size their DTS contract capacity. In particular, those without section 101 waivers that are behind a distribution DTS contract should also have the opportunity to contract directly with the AESO or have line of sight and visibility of their DTS contract obligations.</p> <p>Yes, the ADC agrees and supports that any sites who have been in operation for a minimum period of time be exempt from the PILON.</p>
15	Do you have any additional implementation considerations the AESO should consider?	The AESO should formally request a delay for filing the tariff proposal until all of the issues raised have been addressed.
16	Do you have additional clarifying questions that need to be answered to support your understanding?	The ADC posed a number of questions in the session, many articulated in the above comments. The ADC would appreciate a formal response to our concerns.
17	Additional comments	None

Thank you for your input. Please email your comments to: [tariffdesign@aesoc.ca](mailto:tariffdesign@aesoc.ca).