

# Stakeholder Comment Matrix & Proposal Evaluation – Nov. 5, 2020

Bulk and Regional Tariff Design Stakeholder Engagement Session 3



<b>Period of Comment:</b> Nov. 5, 2020 through Nov. 20, 2020	<b>Contact:</b> Colette Chekerda, P.Eng.
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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 evaluation to [tariffdesign@aeso.ca](mailto:tariffdesign@aeso.ca) by **Nov. 20, 2020**.

*The AESO is seeking comments from Stakeholders on Session 3 and the preferred rate design option proposals. Please be as specific as possible with your responses.*

Questions	Stakeholder Comments
1. Please comment on Session 3 hosted on Nov. 5, 2020. Was the session valuable? Was there something the AESO could have done to make the session more helpful?	The November 5 <sup>th</sup> session was valuable, and the ADC appreciated the AESO allowing for more preparation time. It may have been helpful to consolidate the energy storage presentations and spend more time on the DTS tariff discussions.
2. Please complete <b>Table 1: How Did Each Proposal Achieve the Rate Design Objectives</b> for each of the proposals presented at Session 3.	<p><i>Instructions:</i> As per the example provided, please indicate how well Proposals 1 through 7 met each of the five Rate Design Objectives by pasting the appropriate coloured circle in the corresponding space. The legend defines and contains the coloured circles from which you can copy and paste into the table.</p> <p>Please provide comments or an explanation of how you came to your conclusions as appropriate.</p>

## Questions

## Stakeholder Comments

Proposal 1 has been historically approved by the AUC as meeting cost causation objectives. While not perfect, it reflects that the overall bulk system needs to be able to flow electricity in the province such that the grid can reliably serve the system peak load from a number of generation sources. The Bulk/Regional cost allocation in this method has been supported by the London Economics Costs Causation study which all load parties signed off on by a negotiated settlement.

Proposal 3 Minimum change proposal: This proposal is suggesting to move all bulk system charges to a non-coincident peak tariff, but keeping the remaining charges the same. As the Bulk system charge is the largest billing component this change is extremely disruptive for dual use customers and price responsive loads. It has the same deficiency as the AESO Bookend A in that NCP does not reflect how the AESO plans the system, or support efficient use of the system. Specifically:

- The NCP rate design proposal has not been supported by any cost causation study to evaluate its consistency with cost causation principles.
- An NCP rate design ignores demand diversity at the bulk transmission system level.
- An NCP rate design is inconsistent with transmission system planning principles which rely on designing a transmission system that can support CP demands.
- An NCP price signal is inefficient because it provides no price signal to reduce demand at the times of system stress, which generally correspond to system coincident peak demand periods.
- Transmission rate design in U.S. regional markets generally relies on CP methods for cost allocation and rate design. We are not aware of any precedent for the use of an NCP approach in other regional markets to allocate and to recover bulk transmission system costs
- Transitioning to an NCP rate design for bulk transmission would be inequitable because it would unfairly penalize price responsive loads who have made significant investments to effectively

## Questions

## Stakeholder Comments

respond to the CP price signal, which response has provided benefits to all customers on the Alberta system by deferring the need for incremental transmission investment.

The proposal recommends cost mitigation for existing customers by providing a rate credit. This is problematic for the following reasons:

- Creates rate instability and will deter any new investment from these loads if it puts their rate mitigation at risk.
- Could potentially violate international trade agreements as mitigation could be argued a preferential rate treatment for certain industries.
- Concern that this type of mitigation would significantly increase the regulatory burden for certain customers as they would need to continually need to defend rate treatment.

ADC is concerned that this group has done no modelling to understand what the impact on transmission build would be if the price responsive loads and the dual use customers all decided to use the grid at the time of system peak and also what the rate impact would be if the rate proposal led to large scale grid defections.

Proposal 4 CCA Modification: This proposal is suggesting a similar approach to 3, but with the introduction of a declining block mechanism and a 5 year transition approach. This approach would require immediate relief of DTS notice period as this option would jeopardize many price responsive loads and Dual Use customers. It would eliminate any further investment from these industries and would jeopardize the existing revenue contribution that these companies make. Proposals for a transition to an NCP rate design are unreasonable if they are limited in duration, because such proposals only serve to defer rather than to avoid significant rate increases for price responsive customers.

Proposal 7 Suncor: ADC has reservations about this proposal as it is too dependent on generator dispatch and location. The proposal would also create complexity and uncertainty surrounding the determination of marginal transmission costs and the determination of the coincident peak regional inflow billing determinant. Moreover, if the difference between marginal and embedded

Questions	Stakeholder Comments
	<p>system transmission costs is significant, customers would be assessed a large residual customer charge that provides no effective price signal to influence customer usage patterns and that drowns out any CP price signal, simply to ensure full embedded cost recovery. The resulting fixed charge proposal spread equally among POD's would be harmful to many smaller loads. This proposal highlights the need for changes to the transmission regulation that would strengthen the locational signal for generation in order to minimize future transmission build. In general, the proposal introduces significant complexity and uncertainty to arrive at a bulk transmission rate design that will not yield meaningful efficiency improvements relative to the existing design.</p>
<p>3. Which rate design option proposal, including the AESO's bookends A and B presented at Session 2, did you prefer? Why?</p>	<p>The ADC prefers the rate proposal presented by the ADC/DUC/IPCAA as the only workable proposal of the options considered so far.</p> <p>The other issues with the tariff proposals were described in point 3, but for completeness, the ADC also reiterates their concerns on the AESO Bookend A and B alternatives:</p> <ol style="list-style-type: none"> <li>1. AESO Bookend A Fixed Charge: The AESO's bookend A assumes that the grid has been built to provide a level of service that is the same for all customers, regardless of the level of service received from the grid. If the AESO planners used this approach to planning, they would be adding the sum of all DTS contract capacity billing determinants estimated at 13,380 MW, or the highest non coincident metered demand of 10,016 MW to build out the system. This is not our understanding of AESO planning as was confirmed in the AESO response to ADC comments in the AESO Budget Review process.<sup>1</sup></li> <li>2. AESO Bookend B Regional Weekday CPD charge: The ADC has analyzed this option and the price signal doesn't work. When the ADC</li> </ol>

<sup>1</sup> Of note, the AESO does not plan the transmission system based on contracted DTS levels but rather historical and forecasted loading and power flows.

Questions	Stakeholder Comments
	<p>examined the North West Region, it discovered that 4 price responsive loads comprise 25% of the regional load. When these 4 customers are on the system, the region is peaking and the timing of that peak does not necessarily correlate with weekdays. Further the 120 CP daily peak is a weak signal that more resembles an energy charge rather than a capacity charge. A 120 CP approach would incorporate many hours into the price signal that have no meaningful impact on incremental transmission investment. This rate tends to enhance the benefit of developing on-site generation as that would be the only reliable way of avoiding the regional peak. A further problem with this method is that there is no visibility of regional peaks and it would not be simple to develop. A price signal that has no visibility is a poor signal.</p>
<p>4. Does your preferred proposal meet all the rate design objectives?</p> <p>If not, what trade-offs does your preferred proposal create between the rate design objectives?</p> <p>Why are those trade-offs appropriate?</p>	<p>The ADC/IPCAA/DUC proposal is the only one that has been supported by prior AUC decisions.</p> <p>The rate structure does not address the issue of the Distribution Connected generator credits. This is a broader issue that is largely independent of the AESO tariff design. It is up to Distribution companies to defend continuing the credits or phase them out. The AUC has recently launched Proceeding 26090 to resolve this matter with a target completion date in April 2021.</p>
<p>5. Which stakeholders are best served (or least impacted) by your preferred proposal? Why?</p>	<p>All stakeholders are best served by the ADC/IPCAA/DUC proposal. The other proposals result in 100%+ increases to a small number of customers. In the case of the 9 ADC members, the cost shift is ~ \$25M - \$30M. These companies compete in global markets and are electricity intensive. They simply can't absorb this cost increase and will explore alternatives to grid supply. Further, Dual Use Customers will also respond to a NCP or firm billing capacity charge by exploring ways to disconnect from the grid.</p> <p>All Alberta ratepayers benefit from having these companies connect to the transmission system. A failure of even one single company due to a change in transmission tariff design is a failure of this process.</p>

Questions	Stakeholder Comments
<p>6. a) Which stakeholders are most impacted by your preferred proposal? Why?</p> <p>b) What mitigations, if any do you recommend for those who would be impacted by your preferred proposal?</p>	<p>It is a false expectation that today's firm load customers will realize a 4% reduction in transmission costs. In fact, the other tariff proposals could result in a cost increase to small customers if the tariff further accelerates grid defections.</p> <p>There is no mitigation required for the ADC/IPCAA/DUC proposal.</p>
<p>7. a) How would energy storage resources be treated in your preferred proposal?</p> <p>b) Does your preferred proposal include specific elements in relation to tariff treatment for energy storage? Why or why not?</p>	<p>ADC makes no comment on the Energy storage proposals.</p>
<p>8. What are the challenges or unresolved questions with your preferred proposal?</p>	<p>There is the challenge that the tariff is leading to uneconomic generation development behind distribution POD's. This problem does need to be addressed, but drastic changes to the tariff that don't specifically address the problem will simply add unnecessary work and mitigation to arrive at the cost allocation we have today. Narrowly tailored solutions to address concerns with uneconomic bypass of the transmission system can be developed and are far preferable to a drastic overhaul of the transmission rate design that would create wide-ranging adverse impacts to remedy a problem that is relatively limited in scope.</p>
<p>9. Additional comments</p>	<p>There is no doubt that Alberta has built an expensive transmission system and today's ratepayers are unwilling to pay for a system they do not see the benefit of.</p> <p>This is an underlying problem that isn't resolved by socializing costs. The only way out is by encouraging use and growing load in the province. The rate options presented by other parties simply put at risk current businesses.</p> <p>The price responsive loads in the province are especially vulnerable. ADC urges the AESO to complete a thorough analysis of potential rate consequences before landing on any change. The AESO should be aware that by putting forth the bookends that suggest 100% tariff increases for heavy CP responders, it has halted any planned investment in Alberta from members.</p> <p>The AESO commissioned London Economics to complete a Cost Causation study in 2013. This study was supported through a negotiated settlement between all of</p>

Questions	Stakeholder Comments
	<p>the load groups and became foundational for the 2014 tariff application. Since the time of the study, nothing has materially changed with the transmission system as the large build was already underway. The ADC questions why the AESO hasn't conducted another similar study to determine what has changed that warrants a shift away from a tariff design that has guided investment for more than the past decade. Any shift to a new transmission rate design must be supported by a thorough cost causation study that demonstrates that the new proposed rate design is consistent with cost causation principles. In the absence of such a cost a causation study, it would be inappropriate and unreasonable to depart from the existing CP rate design for bulk transmission costs, when the AUC has consistently determined that the CP rate design is consistent with cost causation in several prior decisions.</p>

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

**Table 1: How Did Each Proposal Achieve the Rate Design Objectives**

Objective	Description	Example	Proposal 1 ADC, DUC and IPCAA	Proposal 2 Energy Storage Canada	Proposal 3 CWSAA, UCA, AML, and Conoco	Proposal 4 CCA	Proposal 5 CanREA	Proposal 6 RMP Energy Storage	Proposal 7 Suncor Energy Inc.
<b>Reflect Cost Responsibility</b>	Cost recovery is based on the benefit and value transmission customers receive from the existing grid								
<b>Efficient Price Signals</b>	Price signal to alter behavior to avoid future transmission build								
<b>Minimal Disruption</b>	Customers that have responded to the 12-CP price signal and invested to reduce transmission costs are minimally disrupted								
<b>Simplicity</b>	Simplicity and clear price signals while achieving design objectives								
<b>Innovation and Flexibility</b>	ISO tariff provides optionality for transmission customers to innovate while not pushing costs to other customers								

**\* Proposed rate design must fit within current legislation \***

Legend	Achieves objective	Potentially achieves objective with modification	Partially achieves objective	Potentially partially achieves objective with modification	Does not achieve objective