

AESO Recommendation Paper – Transmission Cost Accountability

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1 Executive Summary

The AESO has identified a set of recommendations resulting from its consideration of stakeholder comments on the [Draft Recommendation Paper – Transmission Cost Accountability](#) issued on May 4, 2012. The AESO received general support from stakeholders to move forward with implementing Option 1 (maintain status quo with minor changes) as described in the Draft Recommendation Paper. Option 1 includes four elements:

1. Coordination with the Alberta Utilities Commission (AUC)
2. Work with the Transmission Facility Cost Monitoring Committee (TFCMC) in monitoring major transmission projects
3. Enhance cost estimating quality and reporting
4. Initiate changes to ISO rules Section 9.1

In view of stakeholders' general support for Option 1, the AESO is now providing stakeholders an update on our next steps to advance transmission cost accountability initiatives.

The AESO received written responses to the Draft Recommendation Paper from:

- Industrial Power Consumers Association of Alberta (IPCAA),
- Alberta Direct Connect (ADC),
- Suncor Energy Marketing Inc. (Suncor),
- Alberta Utilities Commission (AUC),
- AltaLink Management Ltd. (AltaLink),
- ATCO Electric Ltd. (ATCO Electric),
- EPCOR Distribution and Transmission Inc. (EDTI), and
- Depal Consulting Limited.

The AESO posted the [stakeholder written comments](#) to our website on June 14, 2012 and endeavors to address those comments in this Recommendation Paper.

Key stakeholder commentary on the AESO's Draft Recommendation Paper included the following:

1. AUC Comments

The AUC, while supportive of the AESO's initiative, offered extensive comment and suggestions, including:

- not unnecessarily limiting the information exchange with the AUC,
- circumstances under which the AESO would issue its project alerts to the AUC,
- process for development of a reporting protocol between the AESO and AUC,
- taking into account the AUC's requirements in the AESO's cost control reviews,
- during the AESO's review of cost estimating quality with the Transmission Facility Owners (TFOs), other parties should not be excluded.

2. Consumer Comments

- some stakeholders advocated for the Transmission Facility Cost Monitoring Committee (TFCMC) to take on a larger role in cost accountability oversight,
- the AESO should engage industry stakeholders in areas of AESO rules review as well as efforts to enhance cost estimating quality,
- some stakeholders encouraged the AESO to engage the Department of Energy to consider regulations on TFO cost recovery,
- some stakeholders suggested the AESO is not going far enough (i.e. with only Option 1 implementation) with respect to addressing stakeholder concerns regarding cost accountability,

- quality of cost estimates should be measured by how close the final cost estimates are to the initial project estimate, and further there should be an enforcement of cost control with the TFOs having the responsibility of cost control.

3. Transmission Facility Owner (TFO) Comments

- the AESO should exercise caution in its advancement of rule and process changes, acknowledging the AUC's role with respect to cost prudency reviews; concern with TFOs being subjected to a form of "double jeopardy",
- support in forming an industry work group to provide input prior to advancing specific ISO rule changes,
- expressed concerns with AESO "project alert" submissions to the AUC,
- support expressed for the AESO's initiatives related to project cost benchmarking, but questioned how this data will be applied in reviewing TFO cost estimates,
- quality of cost estimates and reliability of cost estimates are not synonymous,
- the current legislative and regulatory framework is adequate in regards to TFO cost oversight.

2 Introduction

In November 2011, the AESO issued the [Discussion Paper – Transmission Cost Accountability](#) and a proposed AESO "Terms of Reference on Consultation on Transmission Cost Accountability", and sought stakeholder comment on the challenges and issues with the current cost accountability framework identified by the AESO. The AESO also conducted two stakeholder sessions (November 22, 2011 in Calgary, and November 28, 2011 in Edmonton) to facilitate further discussion on the issues raised through the Discussion Paper. The AESO subsequently received written comments from a number of stakeholders which were posted to the AESO's website February 2, 2012. The AESO provided written responses to the individual stakeholder comments and prepared a Draft Recommendation Paper – Transmission Cost Accountability and posted both to the AESO website on May 4, 2012. The AESO conducted two more stakeholder sessions (May 23, 2012 in Calgary and May 29, 2012 in Edmonton) to facilitate further discussion on the draft recommendations. Written stakeholder comments received on the Draft Recommendation Paper were posted to the AESO website on June 14, 2012.

The AESO has reviewed the stakeholder written comments and prepared this paper with a specific set of recommendations for further action.

3 Purpose

The purpose of this paper is to respond to stakeholder comments on the Draft Recommendation Paper and communicate the AESO's specific recommendations and next steps to move this initiative forward. The AESO views that based on the written comments received on the Draft Recommendation Paper, there is adequate support for the proposed recommendations and another round of stakeholder comment is deemed unnecessary.

4 Summary of Stakeholder Comments on Draft Recommendation Paper – Transmission Cost Accountability

The following is a summary of the key written comments submitted by stakeholders, as well as the AESO's proposed plans to address stakeholder concerns.

4.1 General

Most stakeholders were generally supportive of the approach the AESO was taking in moving forward with Option 1¹ while remaining within the current legislative framework. IPCAA expressed some preference for adopting a combination of Option 1 and 2 *“...because there is a need to engage ratepayers in the cost accountability process.”* IPCAA, while agreeing with the purpose and scope of this initiative suggested *“... that a third objective for the current initiative be added which would lead to a proactive process for cost control. Improving estimates, monitoring and reporting are essential elements-however, an additional critical element is to enforce cost control, and this element is necessary in order to make use of the monitoring and reporting efforts.”* The ADC, while supportive of the AESO recommendation, felt *“...the AESO does have a role to influence the DOE in enhancements to the transmission regulation and regulatory compact that the transmission facility owners are currently subject to.”* The ADC also expressed concern that the scope of the current review *“...is confined to only improvements within the current regulatory framework.”* AltaLink also expressed support for the AESO recommendation and in addition *“...AltaLink continues to put forward the need for the AUC to convene a broad industry working group to assess recommendations for improvements to the AUC process...”*

The AESO plans to move forward with Option 1 (maintaining status quo with minor changes and remaining within the provisions of the existing *Transmission Regulation*) and views that many of the stakeholder concerns will be addressed by the initiatives recommended in section 5.0.

4.2 AESO Considerations for Change

The AESO outlined two options (referred to as Option 1 and Option 2) for change and provided a discussion of those options in the Draft Recommendation Paper. Most stakeholders expressed support for the AESO's recommendation of moving forward with Option 1.

Suncor, while seeing merit in the AESO moving forward with Option 1, *“...continues to recommend an increase role for the TFCMC.”* Suncor also expressed concerns that neither Option 1 nor Option 2 deals with project prioritization. Suncor indicated that *“While Suncor does not wish to be prescriptive on this issue; we feel that this is an issue which requires immediate attention and resolution.”*

IPCAA raised concerns that the AESO is not going far enough and advocates adopting a combination of Option 1 and 2. IPCAA suggests that *“...there is more efficiency to be gained by having an independent agency dedicated to the role of transmission cost monitoring and control. The TFCMC is in the best position to take on this responsibility under the current framework.”* IPCAA also indicated that *“...IPCAA does not oppose proceeding with Option 1 as an intermediate step so long as consideration is given to an integration of ratepayer interests into the process as the long-term goal.”* IPCAA points out that *“The framework needs to ‘get in front of the costs’ rather than to ‘judge prudence after the fact’.”*

In response to Suncor and IPCAA's concerns, the AESO notes that, as a member of the TFCMC, the AESO will continue to work and support the various efforts of the TFCMC as noted in section 5.2. The concerns associated with project prioritization are recognized, have been discussed with the TFCMC, and will continue to be recognized by the AESO as a priority through its internal business practices.

ATCO Electric, while generally supportive of Option 1, provided some commentary on the AESO's list of opportunities in pursuing Option 1. ATCO Electric suggested that *“...an additional opportunity could be added for improving the relationship between cost estimate accuracy and the project schedule.”* ATCO Electric expressed concerns with respect to additional transparency of cost estimates indicating *“...it is important to realize that additional disclosure could negatively impact vendor participation in the competitive process, thus driving up project costs.”*

The AESO views that ATCO's Electric's concerns will be addressed through the actions proposed by the AESO as described in section 5.3.

¹ Please refer to the AESO's Draft Recommendation Paper for a full description of Option 1 and 2, available at http://www.aeso.ca/downloads/Draft_Recommendation_Paper.pdf

The AUC provided extensive comments to the AESO and encouraged the AESO “...to explore changes to the existing framework as well as consider new practices that would be permissible under current legislation and in the public interest to undertake.” The AUC commented that “While the Commission appreciates that reasonableness and prudence are not identical concepts, they are closely related and one may inform the other. Accordingly, the Commission urges the AESO not to unnecessarily limit information conveyed to the Commission on the basis of concern that it may cross over into the Commission’s jurisdiction.” The AUC also indicated that “It would be beneficial if the AESO could provide additional clarity as to its current thinking about providing periodic project alerts, including more complete description of the types of conditions that would prompt the AESO to issue an alert, and the timing for sending such an alert.” The AUC “...encourages the AESO to consider its role to be one of ensuring a full record to assist the Commission rather than considering that communication of project cost information from the AESO to the Commission should only occur when the AESO believes there may be a problem.”

In response to the AUC’s concerns identified by the written comments, the AESO views that these concerns can be addressed through the establishment of a reporting protocol between the AUC and the AESO. This is more fully outlined in section 5.1 below.

The AUC indicated that it would be helpful “...if the AESO could clarify how its efficiency mandate influences the AESO’s assessment of transmission project costs.” To that end, the AESO notes the aspect of efficiency within the AESO’s overall mandate to provide for the safe, reliable, and economic operation of the interconnected electric system². The AESO’s role is to select the best transmission alternative to satisfy the need, by taking into account the immediate as well as the long term needs of its customers. The AESO must provide an assessment that transmission costs are reasonable in the context of the scope of the individual transmission projects defined by the AESO. The scope of the transmission development must consider requirements to meet both near-term as well as long-term needs. The AESO, after considering various transmission alternatives to meet a particular need, has established the scope and subsequently a “base-line” cost estimate for the project for which the AESO has considered the cost estimate to be reasonable. The AESO relies on the regulated TFOs to deliver or execute the transmission project within the reasonable bounds of the cost estimate and the AUC’s assessment of the TFO’s cost prudence in delivering the transmission project.

AltaLink supports the AESO recommendation to proceed with Option 1. AltaLink encourages the AESO to form a TFO working team to support the AESO to enhance preparation of cost estimates, project scope and schedule documents in recognition that any changes “...will likely result in changes to AltaLink systems and associated time and costs.” AltaLink also raised some concerns on the AESO’s submissions to the AUC, pursuant to *Transmission Regulation* Section 25(5), in the context of “prudence alerts”.

The AESO views AltaLink’s concerns, noted above, will be addressed through several avenues including the AUC/AESO reporting protocol and the proposal by the AESO to form an industry working group to address potential changes to ISO rules Section 9.1, as outlined in section 5.4.

4.3 AESO Draft Recommendations

4.3.1 Coordination with the AUC

While no stakeholder expressed opposition to the development of a reporting protocol, several stakeholders expressed some concerns regarding the purpose and content of enhanced reporting.

EDTI expressed caution with respect to the form of the AESO reporting to the AUC to ensure that the TFOs are not subjected “...to a form of unauthorized “double jeopardy” or de facto cost prudence assessment...”.

ATCO Electric expressed that reporting mechanisms are already in place “...that allows interveners, through the TFCMC, to review project cost variances for major projects...”.

² Section 16 of the *Electric Utilities Act*

IPCAA expressed concerns that the AESO reporting to the AUC “...is structured to only deal with costs in excess of the allowed reporting variances and it does not include any comments on relative prudence of cost overruns.”.

The AUC had extensive comments on this section, particularly with respect to the proposed key principles for the protocol. The AUC made several key suggestions to the AESO for consideration:

- The AESO should not preclude the provision of commercially sensitive information to the AUC. The AUC has Rules of Practice that deal with this.
- The AESO should not unnecessarily restrict the reporting of information obtained from its reasonable assessment to the AUC.
- The AESO should strive to “...incorporate considerations related to the AUC’s prudence assessment role in its redesign of its cost control processes...”.
- The AESO should not limit its reporting of project variances beyond the NID (+/-30%) or P&L application (+20/-10%) thresholds.

The AESO views that the concerns of both stakeholders and the AUC will be addressed through a collaborative effort to develop a reporting protocol as discussed in section 5.1. It should be noted that the AESO has confidentiality provisions in its current rules and therefore these must be considered with respect to information provided to the AUC.

Changes to the reporting protocol may also be included in the review of ISO rules Section 9.1 as outlined in Section 5.4.

4.3.2 Work with the TFCMC to Monitor Major Transmission Projects

IPCAA expressed gratitude to the AESO for its support of the TFCMC and indicated that “...IPCAA hopes to see a gradual transition of responsibilities in cost monitoring and control from the AESO to the TFCMC.”.

EDTI and Suncor expressed support for the TFCMC’s activities.

The AESO notes that stakeholders generally support the AESO’s efforts in working with the TFCMC.

4.3.3 Enhance Cost Estimating Quality and Reporting

Stakeholders expressed general support of the AESO’s efforts to enhance cost estimating quality and reporting and indicated a desire to participate in such initiatives. In this regard, the AESO proposes to include this effort within the scope of work associated with the review of ISO rules Section 9.1 as outlined in Section 5.4. The AESO views that stakeholder concerns expressed regarding to cost estimating quality and reporting will be addressed by stakeholder participation in the work group proposed by the AESO.

The AUC indicated that “... any enhancements of the templates should consider information needs of the AESO, as well as the Commission, as well as the need for more meaningful and focused reporting of information.”. The AUC also “...suggests that part of this effort should include an examination of the effect of TFO capitalization policies on costs attributed to facility projects by different TFOs.”. The AUC requested clarification on the AESO’s plans to utilize the results from the AESO’s compliance reviews (pursuant to ISO rules Section 9.1.5.8) with the TFOs to introduce enhanced business practices for the competitive procurement of materials and labour. In response to the AUC’s question, the AESO sees value in examining results of such compliance reviews in order to assess whether the AESO rules with respect to competitive procurement continue to achieve the desired outcome of delivering a least cost transmission facility through the application of market forces to the procurement of project materials.

EDTI expressed caution in regards to the AESO seeking additional level of detail at the NID estimate stage and noted that a consequence will be “... additional time, resources and costs to produce.”

ATCO Electric pointed out that “...there is currently a disconnect between the thresholds of the various estimates (OOM, NID, PPS) and the information that is available to the TFO at the time the estimates are required.”

AltaLink supports the establishment of a work group to address cost estimating quality as well as the application of benchmark data to review estimates.

4.3.4 Initiate Changes to ISO Rules 9.1 – Transmission Facility Projects

Stakeholders expressed support for and a desire to participate in the establishment of an industry work group to evaluate changes to ISO rules Section 9.1. The AUC also requested a clarification from the AESO on its role and participation in the work group. AltaLink indicated that “...the final review of proposed changes seek input from the AUC as observers in the process in order to better align with the AUC’s requirements to meet their portion of the cost accountability mandate.”

The AESO welcomes this support and provides more context for this initiative in section 5.4. The AESO views the AUC’s participation in the work group as essential and would welcome AUC commentary on any changes proposed to the ISO rules, including any reporting templates, in order to align with any subsequent reporting requirements contemplated by the AUC. The term “observer” is applied by the AESO to the AUC in recognition of the AUC’s role as a regulatory body that would generally reserve its decisions following the appropriate regulatory proceedings.

The AESO indicated in its Draft Recommendation Paper that a major overhaul of ISO rules Section 9.1 is unnecessary. The AESO proposes that the focus of the work group’s efforts be on section 9.1.3 – **Project Reporting by Designated** TFOs and section 9.1.5 – **Project Procurement**. Some stakeholders requested the AESO provide more insight on the rationale for limiting review of these sections. The AESO identified these two sections of the ISO rules for review based on the AESO’s experience with the administration of the rules, and in particular, experiences with the execution of very large transmission projects (e.g., well in excess of \$500 million). While the AESO provided specifics on the review of sections 9.1.3 and 9.1.5 during the May 23 and May 29, 2012 stakeholder sessions, the AESO provides added detail in this paper.

The AESO considers it necessary to review certain aspects of ISO rules Section 9.1.3 – **Project Reporting**, including, but not necessarily limited to, the following example areas:

- While Subsection 9.1.3.2 establishes threshold levels for variance reporting, the AESO considers the levels too high when applied to very large transmission projects (eg. In excess of \$500 million)
- Timing of monthly reports is defined by section 9.1.3.1. The AESO sees a need to review this section to ensure added clarity on the timing requirements for monthly reports.
- The AESO wishes to revisit the requirement for a 15 day turnaround identified in section 9.1.3.4.
- Section 9.1.3.5 deals with scope change and the AESO’s obligations to approve. The AESO views that certain trend changes presented by the TFOs are not appropriate for the AESO to approve.

The AESO also considers it necessary to review certain aspects of ISO rules Section 9.1.5 – **Project Procurement**, including, but not necessarily limited to the following example areas:

- The AESO wishes to assess the continued appropriateness of the dollar thresholds for major and minor acquisitions defined in sections 9.1.5.2 and 9.1.5.3 given that these were established in 2005.
- The AESO considers feedback gained through the compliance reviews³ to be valuable in assessing whether the current rules regarding competitive procurement require any modifications. Of note, the AESO has published an Information Document (ID)⁴ to provide further clarity on the administration of ISO rules Section 9.1.5.

³ The following link provides full detail of the AESO’s compliance review of ISO rules Section 9.1.5:
http://www.aeso.ca/downloads/ISO_R9.1.5_Compliance_Monitoring_Audit_Process_04May12.pdf

⁴ The following link provides details of the ID : http://www.aeso.ca/downloads/Information_Document_2012-003R_-_9_1_ID_v1__may_15_2012.pdf

The AESO expects to further review the scope of potential changes to ISO rules Section 9.1 within the working group.

5 AESO Recommendations

The AESO views that there is general support from stakeholders to proceed with Option 1 – Status Quo with Minor Changes (or Option 1), as outlined in section 6.1 of the Draft Recommendation Paper and will proceed with implementing the following initiatives:

5.1 Coordination with the AUC

The AESO will continue to engage the AUC on the development of a reporting protocol to enhance the level of information sharing between the AESO and the AUC on the reporting of transmission project costs. This discussion is in its early stages, and the AESO and AUC have not yet explored the details of a proposed framework for a reporting protocol. The effort is ongoing and will be communicated with stakeholders in greater detail at the appropriate time through either an AUC or AESO or joint AUC/AESO communication.

5.2 Work with the TFCMC in Monitoring Major Transmission Projects

As a member of the TFCMC, the AESO will continue to work with the committee to enhance its transmission cost reporting quality in response to TFCMC concerns. The AESO proposes to keep the TFCMC informed as it enhances cost estimating quality through changes in the ISO rules Section 9.1, as described in sections 5.3 and 5.4.

The AESO views the TFCMC as an excellent forum for information sharing regarding transmission advancement and the evolving costs of projects. The AESO made a number of presentations to the committee and developed enhanced reporting templates. This reporting provides committee members with timely information on the advancement of transmission projects estimated in excess of \$100 million.

5.3 Enhance Cost Estimating Quality and Reporting

The AESO will continue to work with the TFOs to strive to improve the cost estimating quality of transmission projects for both the +/- 30% cost estimates supporting the Need Identification Document (NID) and the +20/-10% cost estimates supporting the Proposal to Provide Service (PPS). This effort is expected to result in enhancements to cost estimating templates and the quality of cost estimates, and improve consistency across the various transmission facility owners that are required to submit NID and PPS class estimates to the AESO. The AESO intends to include a discussion with the TFOs on estimating quality as part of the work group proposed under section 5.4. The AESO acknowledges that cost reporting template changes can be addressed outside a formal ISO rule change process. However, in view of the initiative to engage the TFOs and other key stakeholders in the review of ISO rules Section 9.1, the AESO would like to take advantage of the work group to also examine opportunities for enhancing the cost estimating quality and reliability for transmission projects.

The AESO will continue to enhance its efforts in transmission cost benchmarking, both internal to Alberta and in other jurisdictions. The AESO has developed a benchmark database using cost information from various Alberta projects that are either completed or under development and has engaged an external consultant to assist the AESO in transmission cost benchmarking against jurisdictions outside Alberta. This benchmarking will enhance the AESO's abilities to review cost estimates prepared by the TFOs at both the NID and PPS stages of transmission projects for reasonableness. The AESO will provide more information to stakeholders on these benchmarking initiatives through our website, once it becomes available.

5.4 Initiating Changes to ISO Rules 9.1 – Transmission Facility Projects

The AESO proposes an industry working group be set up to review the current ISO rules Section 9.1 in the context of the current legislative framework and current market place for the design and construction

of transmission facilities. The AESO intends to consult with key industry groups prior to proposing specific ISO rule changes. The AESO's preliminary assessment reveals that changes are required to section 9.1.3 – **Project Reporting by Designated TFOs** and section 9.1.5 – **Project Procurement**. The AESO notes that the other elements of Option 1 discussed above may also suggest changes to ISO rules Section 9.1.

The AESO expects to issue a draft **Terms of Reference – ISO rules Section 9.1 Review – Industry Working Group** for stakeholder comment following the release of this Recommendation Paper. The AESO proposes to invite a broad cross-section of industry representation to participate in the working group, with one representative from each industry sector.

In forming the working group, the AESO also wishes to explore opportunities for enhancing cost estimating quality and reliability for transmission capital projects.

6 Next Steps

The following represents a tentative set of milestones for the next steps of the initiatives described above:

- 1) August 9, 2012 – release of Recommendation Paper.
- 2) August 14, 2012 – invitation to participate on industry working group.
- 3) September 12, 2012 – first meeting of industry working group.