

March 23, 2018

Alberta Electric System Operator
Calgary Place,
2500, 330-5th Avenue S.W
Calgary AB, T2P 0L4

**Attention: Doyle Sullivan, P.Eng.
Director, Tariff Design**

Dear Mr. Sullivan:

**Re: 2018 ISO Tariff Application
Proceeding 22942
Consultation on DFO Customer Contribution Issue**

On March 5, 2018, AltaLink Management Ltd. (AltaLink) attended a DFO Customer Contribution session at the Alberta Electric System Operator (AESO). On March 15, 2018, the AESO posted the following Action Items:

- **Action Item 1 – AltaLink** - AltaLink to provide detail on its process for retroactively assessing projects and to use specific project examples; and
- **Action Item 2 – AESO** - AESO to make specific requests to AltaLink and FortisAlberta Inc. in regards to further clarification it may require.

On March 15, 2018, AltaLink received a letter from the AESO with eight questions regarding AltaLink's proposal on DFO Customer Contribution. Enclosed is AltaLink's responses to these questions from the AESO. For Action Item 1, AltaLink provides its response in AESO question eight which includes a proposal for addressing historical contributions. The proposed method is not proposing to retroactively adjust historical contributions, but is instead proposing to address the unamortized DFO only customer contributions as at December 31, 2017 on a go forward basis. This method does not involve a specific project due to the method proposed. As a result, AltaLink considers Action Item 1 and 2 closed.

Yours truly,

(Original signed by)

Zora Lazic
Senior Vice President Law & Regulatory, General Counsel

Request:

1. Please provide a process graphic illustrating the ongoing payment/transaction flows that would occur on a monthly basis and include in the graphic how these rates would be adjusted if capital structure, ROE, depreciation rates, or income tax rates change.
2. Please explain in detail what would happen and provide numerical examples when a CCD adjustment is required for
 - a) 5 MW contract increase and a 5 MW contract decrease, including how the PILON would be calculated; and
 - b) when connection project costs change.

Use the parameters provided in the presentation where a \$42 million project would result in a \$308,000/month (\$3.7 million/year) cost to the DFO. Assume an initial DTS contract level of 20 MW and current AESO investment policy and adjust the initial monthly payment accordingly.

3. Please explain the “risk [to a TFO] associated with building, owning, operating and maintaining” where the customer is a regulated DFO.
4. The following is set out on AltaLink Slide 5, bullet 3: “Upon energization TFO refunds the DFO contribution back to the AESO”. As the AESO is currently not a party to the contribution transaction, please explain why a refund to the AESO is being proposed? Could arrangements not be made such that the TFO works directly with the DFO when DFO contributions are required?
5. Please explain why DFO participation would be mandatory. Would this also be applicable to all DFOs in Alberta and if not, identify the DFOs to whom it would be applicable? Additionally, please comment on paragraph 526 of Decision 2011-474, reproduced below:

“526. In response to the submission by the UCA that Rider I should be mandatory for all DFOs, the Utilities stated that there is no rational basis for creating a distinction between standalone and integrated utilities. The Utilities submitted that all utilities are subject to the standalone principle; and therefore corporate affiliations should not necessitate use of Rider I any more than they should be a determinant of the appropriate compensation for CIAC. Therefore, the Utilities submitted that Rider I should be optional for all market participants.”

6. AltaLink’s proposal does not comply with the following subsections of the current ISO tariff:
 - Section 8: 7(2) - A market participant must pay construction contribution amounts to the legal owner of the transmission facility in accordance with the financial obligation provisions of section 5 of the ISO tariff, *Financial Obligations for Connection Projects*.
 - Section 9: 2(2) - The ISO must review the construction contribution determination and may determine a construction contribution adjustment is required when ... [the listed conditions do not include anything that reflects AltaLink’s proposal].
 - Section 9: 6 - The ISO must determine the amount of an adjustment to a construction contribution paid for a connection project in accordance with the construction contribution provisions described in the ISO tariff as applied to the transmission facilities when constructed.



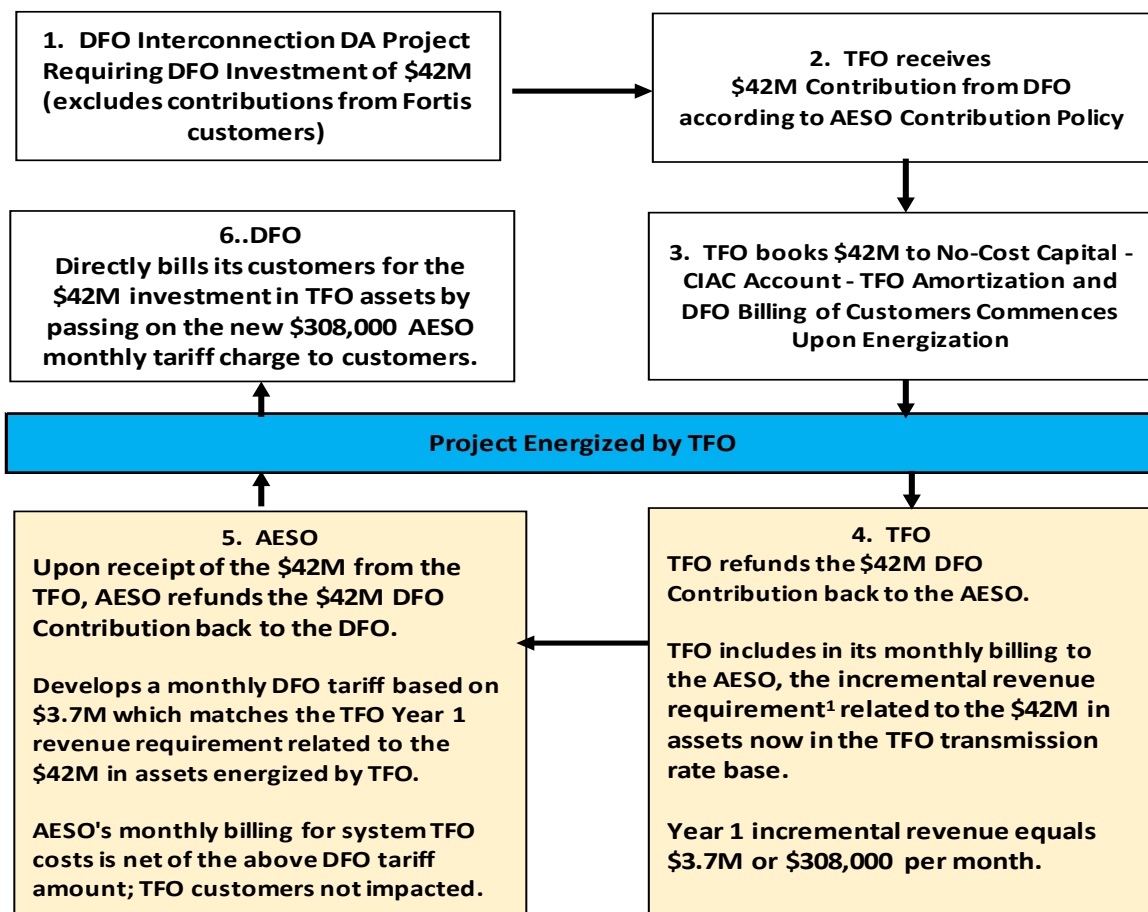
- Section 9: 7(2) - The legal owner of the transmission facilities must refund a construction contribution adjustment ... [the listed circumstances do not include anything that reflects AltaLink’s proposal].

Does AltaLink have suggestions for revisions to these provisions that would allow for a refund of DFO customer contributions to the AESO?

7. Aside from mandatory participation in the AltaLink proposal and only offering the proposal to a DFO, can AltaLink explain how AltaLink’s proposal differs from Rider I?
8. During the session on March 5, AltaLink indicated that it may pursue the application of their proposal retroactively to 2006. Please confirm this possibility and provide details.

Response:

- (1) The schematic shown on Slide 7 of AltaLink’s March 5, 2018, presentation to the AESO shows the payment and transaction flows that would result from AltaLink’s proposed refund of DFO customer contributions using, as an example, the Fortis Provost Line Project with a \$42.0 million DFO contribution.



Description of the process flows as set out in the schematic above reflects:

- Steps 1 to 3: The DFO contributions to the TFO from initiation of project to its energization;
- Step 4: The refunding of the DFO contribution from the TFO to the AESO. As a result, the TFO rate base increases by the amount of the DFO contribution refund and therefore its tariff increases by the amounts attributable to the amortized amounts from the customer contribution refunds to the DFO (via the AESO). At this step the series of amortized amounts will always be calculated and adjusted to reflect final AUC decisions as they arise regarding capital structure, ROE, depreciation rates, or income tax rates changes. This is consistent with how the TFO currently reflects changes to the monthly tariff it charges the AESO. For instance if a generic cost of capital decision is issued, and to the extent any of the capital structure and/or ROE parameters are changed, adjustments would be applied in the determination of AltaLink's tariff to the AESO as well as to the amortized payments determination applicable to the DFO. The changes to those parameters would be applied to the effective period of the decision; and
- Steps 5 to 6: A refund of the DFO contribution from the AESO to the DFO. The AESO in this step converts the DFO contribution into a series of amortized payments (based on the TFO's approved rates) invoiced monthly to the DFO.

To summarize the flow as reflected in Slide 5 of AltaLink's March 5, 2018 presentation to the AESO DFO Customer Contribution – Process Steps and Mechanics:

- i. Proposal only pertains to contributions made by the regulated DFO, and not an industrial or other customer behind the DFO;
 - ii. DFO provides upfront contribution to the TFO as per the AESO policy;
 - iii. Upon energization TFO refunds the DFO contribution back to the AESO;
 - iv. TFO includes the revenue requirement related to these new assets in its monthly AESO billing;
 - v. AESO charges the DFO monthly for the TFO revenue requirement related to the DFO contribution refund and the AESO uses this revenue to offset the TFO tariff increase related to the DFO contribution refund; and
 - vi. DFO will then flow through this AESO monthly charge directly to its customers. DFO customers are kept whole over the life of the assets.
- 2(a) When a CCD adjustment is required, it is important to note that the current proposal does not impact the adjustment levels required for either contract capacity increases or decreases, or with respect to PILON adjustments as they would continue to be determined by the terms and conditions of the AESO tariff. Under the current situation, the financial adjustments arising from such changes would consist of customer contributions being either charged or refunded to the DFO. The only change arising out of this transaction is adjustments reflected through changes to the monthly invoice issued to the DFO and not through a lump sum invoice.

Under AltaLink's proposal, the DFO contribution is refunded post project energization, subsequent changes arising from changes to the CCD contract capacity would take place under the same terms and conditions that currently exist. The difference arises in that the refund amount would no longer be accomplished through a single lump sum payment to the DFO via the TFO. Instead, the capacity adjustment is reflected through lower monthly invoicing amounts to the DFO as a result of lowering the contribution investment that determines the billing amount. Therefore, as a result of

this adjustment arising from a DFO contract capacity increase, the DFO ratepayers would see a reduction to their monthly charges while the transmission system ratepayers would see an offsetting increase. In summary, the recovery of the total costs associated with the transmission asset(s) follow the AESO's tariff in determining the amount to be recovered from Transmission System ratepayers and Distribution ratepayers.

The following simplified example assumes the initial DFO Customer Contribution was \$42.0 million based on a DTS contract capacity of 20 MW:

- In the event contract capacity was increased by 25 percent from 20 MW to 25 MW, we have assumed for simplicity that the DFO's required contribution would also be adjusted downward by 25 percent from \$42.0 million down to \$31.5 million;
- Under the current environment, this \$10.5 million as determined by the AESO, would be refunded by the TFO to the DFO and would result in lower charges to DFO ratepayers. Conversely, according to the AESO tariff, the TFO rate base would increase by the \$10.5 million (due to reduced contribution levels). This increase to the TFO rate base would result in increased and equal offsetting charges to the transmission ratepayers;
- Under the proposed approach, a change to the contracted amount would result in no change to the TFO rate base as it would have already reflected the refund of the DFO contribution. What would change is the amount the AESO charges the DFO. Specifically, the determination of what portion of the TFO total tariff is to be invoiced by the AESO to the regulated DFO would decrease by the amortized payment associated with the \$10.5 million adjustment arising from this example; and
- As a result of decreasing the DFO contribution refund amount by the \$10.5 million, the amount the AESO would now invoice the DFO falls from \$3.7 million in year 1 down to \$2.8 million or approximately \$232,000 per month. The offsetting difference would be charged to the Transmission System ratepayers.

The same mechanics and approach would apply for decreases in CCD contract capacity (from 20 MW to 15 MW). The DFO contribution principle amount in this example would be adjusted upward by 25 percent from \$42.0 million to \$52.5 million and amounts to \$3.7 million per year to \$4.6 million per year or approximately \$385,000 per month. This resulting adjustment as calculated by the AESO would be charged to the DFO. Again, in this instance, instead of a further lump sum contribution from the DFO reflecting this adjustment being made to the TFO under the current environment, the proposed approach would have an increase in the monthly amount (from \$307,000/month to \$385,000/month) that the AESO would invoice the DFO (who would collect these amounts from their ratepayers). This would result in lower offsetting amounts being charged to transmission system ratepayers. Any adjustments with respect to PILON related charges as determined by the AESO tariff would also be treated in similar fashion.

- 2(b) When connection project costs change, the appropriate adjustments to the required DFO contribution amounts would be calculated (as they are currently being done) under the AESO tariff. Upon energization of the project (under the proposed approach), the DFO customer contribution would be refunded to the AESO who would in turn refund those contributions to the DFO. As explained above, the TFO monthly charge to the AESO would increase and consequently the AESO's monthly charge to the DFO would increase by a corresponding amount. In all of these instances

that give rise to changes to DFO contributions, the TFO would assist the AESO in calculating the monthly charges to the DFO.

- (3) The TFO is responsible for the design, permitting, construction and integration of those transmission projects. These assets are then required to be operated and maintained in a reliable and efficient manner. These activities must be performed prudently and subjects TFO's to construction, operating and decommissioning risk. This can be summed up as business risk of owning and operating transmission assets as a TFO.
- (4) The AESO is currently not a direct party to the Customer Contribution Agreement, however, the template and process is a mechanism reflected in the AESO's approved tariff. The refund of the DFO contribution through the AESO is proposed due to the AESO being the sole provider of transmission system access, inclusive of charges for access to market participants. The TFO does not have the authority to make contribution arrangements directly with a DFO without authority from the AESO/AUC. To the extent the TFO is permitted to directly work with the DFO regarding DFO contributions, AltaLink (TFO) would agree to do so.
- (5) This is not a Rider I issue and the Rider I proposal was not adopted in Alberta. AltaLink's proposal is designed to only be applicable to regulated DFOs to address a long standing tariff structure issue between regulated TFOs and regulated DFOs and should be applicable to all Alberta DFOs. This proposed change should be mandatory regarding contributions made by the regulated DFO only, and not an industrial or other customer behind the DFO.

For additional context, this is a tariff matter that does not change who ultimately pays for transmission assets. Under this proposal, transmission assets as defined in the EUA and their related costs that are determined by the AESO tariff are part of the transmission system and are paid by transmission system ratepayers. In AltaLink's proposal, transmission assets built by the TFO for the DFO have costs recovered through the DFO customers. In other words, the end customers are not impacted by this proposal. This proposal places the rate base into the regulated party (the TFO in this instance) that is accountable for the design, permitting, construction and integration of those transmission projects and not the regulated DFO. It effectively stops the DFO from earning returns on the regulated TFO's transmission assets.

The regulated TFO should be allowed to make the investment in TFO assets because it is the entity that owns and maintains the AIES and not the regulated DFO. Left unchanged, this situation results in the TFO incurring business risk, as discussed above, without return while providing the DFO with the regulated returns on the risk.

Furthermore, the current arrangement fails to provide clear economic signals concerning regulated DFO's investment decisions in regulated transmission related assets. Unlike industrial customers that are not regulated, the regulated DFO finances the customer contributions it makes to the TFO with respect to transmission assets, and then recovers those costs inclusive of a regulated return on equity from the DFO ratepayers. Effectively, encouraging the DFO to pursue the construction of transmission assets by the TFO. By shifting the return on transmission to the TFO, it provides economic signals on when transmission assets are required by a DFO.

Overall, allowing TFO's to earn a fair return on the design, permitting, construction and integration of transmission assets in Alberta properly balances the business risk and creates proper economic signals for the construction of transmission assets.

- (6) AltaLink's proposal does comply with the current subsections listed above. In AltaLink's view, there would be no requirement to change the Sections listed above in regards to the determination, collection of the upfront contribution or any financial settlements/true-ups associated with the DFO contributions. The AltaLink proposal contemplates the refunding of such DFO contributions post energization of those assets. Also, any changes to elements, such as DFO contracted amounts on a go forward basis, would continue to be subject to the existing AESO tariff adjustments. Those ensuing adjustments, as explained in response 2 above, would be reflected as a change in the level of recovery of costs from the DFO through the proposed monthly invoicing process.

With respect to changes/additions to the AESO tariff sections, AltaLink proposes to work with the AESO and other interested parties to determine the appropriate revisions regarding its DFO contribution proposal. Specifically, tariff sections would need to be drafted to reflect the refunding of the DFO contributions post project energization and the conversion to a monthly billing amount that would see the AESO invoicing the regulated DFO who would in turn collect such amounts from its customers.

- (7) Rider I was specifically focused at all stakeholders industry wide and provided an option for enrolment. As explained in response 5 above, AltaLink's proposal is about correcting the issue of TFOs bearing the risk for DFOs, while DFOs effectively earn the return on the transmission asset. However, a similarity does exist between the Rider I and the DFO contribution refund proposal, as the mechanical calculation in determining the monthly charge to the DFO adopts the approved TFO cost of service rates and methods in determining the amortized monthly amounts to be charged to the DFO.
- (8) AltaLink intends to pursue the application of its proposal to the unamortized DFO only customer contributions as at December 31, 2017. This is a go forward approach that would refund those unamortized balances in the same fashion as described in AltaLink's proposal. The unamortized DFO contributions will be refunded to the AESO who in turn passes those amounts back to the regulated DFO. The AESO would then charge the DFO, on a monthly basis, the TFO's cost of service associated with those contributions. The DFO would then collect those invoiced amounts from its customers and would pay the AESO.