

Stakeholder Comment Matrix – Sept. 24, 2020

Bulk and Regional Tariff Design Session 2



Period of Comment: Sept. 24, 2020 through Oct. 8, 2020 Comments From: ENMAX Date: 2020/10/08	Contact: Randy Stubbings Phone: Email: rstubbings@enmax.com
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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 by **Oct. 8, 2020**.

The AESO is seeking comments from Stakeholders with regard to the following matters:

	Questions	Stakeholder Comments
1.	Please comment on Session 2 hosted on Sept. 24, 2020. Was the session valuable? Was there something the AESO could have done to make the session more helpful?	Yes, the session was valuable.
2.	Are you supportive of the proposed engagement approach for the AESO’s Bulk and Regional Tariff Design? Why or why not? Please be as specific as possible.	ENMAX is generally supportive of the proposed engagement approach for the Bulk and Regional Tariff Design. However, ENMAX recognizes that, under the existing regulatory framework, potential changes to the AESO’s existing rate design are limited.
3.	Do you support the AESO’s perspective that 12-CP (status quo) is not a reasonable continued outcome of the Bulk and Regional Tariff Design? Please be as specific as possible.	<p>ENMAX agrees that the 12-CP is not a reasonable continued outcome of the Bulk and Regional Tariff Design.</p> <p>As discussed in ENMAX’s response to Question 2 in the March 19, 2020 Stakeholder Comment Matrix:</p> <ul style="list-style-type: none"> - there is zero to moderate correlation between system or regional loads and individual line flows, and even where correlations exist they do not indicate which loads should be increased and which should be decreased;

	<ul style="list-style-type: none"> - reducing load in some areas of the province can exacerbate the stress on some parts of the transmission system; - reducing a regional system peak from (say) 100 MW to 90 MW in July provides no benefit if the annual peak demand is 120 MW in December; and - generation dispatch is a significant factor in line flows, and since the dispatch can differ materially from one system peak to the next—especially due to the vagaries of the wind and the sun—the power flow on any given transmission facility can be very different between one system peak and the another. The latter point can only increase in importance as the volume of intermittent renewable generation increases. <p>In recognition of the principles of fairness and rate stability, ENMAX supports a reasonable transition from today's 12-CP rate to any replacement rate. However, these principles must not be used to support an entrenchment of the status quo.</p>
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Questions	Stakeholder Comments
<p>4. Are the AESO's bookends A and B reasonable starting points for the Bulk and Regional Tariff Design, considering future determination of modifications and mitigation? Why or why not? Please be as specific as possible.</p>	<p>Within the confines of the existing legislative framework, and recognizing the constraints imposed by the March 31, 2021 deadline for the next tariff application, the bookends are reasonable. However, over the longer term, options outside these bookends should be considered. For example, there may be opportunities to change the tariff's rate structure to better reflect the characteristics of individual customers without necessarily increasing the number of customer classes. There may also be opportunities to add new ancillary services to allow the benefits that customers can provide to the transmission system to be recognized directly, as opposed to <i>indirectly</i> recognizing those benefits through reductions in wire-related charges. Indirect recognition of benefits usually results in confusing and inaccurate price signals and unintended consequences.</p>
<p>5. Are their considerations or objectives relating to energy storage tariff treatment that you feel the AESO has missed? If yes, please describe and be as specific as possible.</p> <p>Do you have additional clarifying questions that need to be answered to support your understanding?</p>	<p>The AESO appears to have correctly recognized that an energy storage facility looks like a generator when it is producing power and looks like a load when it is absorbing power. This is consistent with the fact that the need for transmission facility additions or upgrades, and therefore cost, is driven by power flows, not by how the power is produced or what a customer uses the power for. It would be a violation of the principle of cost causation to create special rates for specific types of customers.</p>

		<p>ENMAX also notes that the AESO appears to have multiple initiatives relating to the development of energy storage in Alberta (e.g., Bulk and Regional Tariff, Energy Storage Roadmap and Energy Storage Industry Learnings Forum). Given the interdependent nature of these processes, ENMAX seeks to better understand how the scope of work and timelines for each initiative aligns with one another. There appears to be duplication of work and the potential for key decisions to be made in isolation.</p>
6.	Additional comments	<p>Comments on the AESO’s Objectives</p> <p><u>Reflect Cost Responsibility</u></p> <p>On Slide 29 of the September 24 presentation, under the objective <i>Reflect Cost Responsibility</i>, the AESO states that “Cost recovery is based on the benefit and value transmission customers receive from the existing grid.” ENMAX believes it is important to be clear about what is meant by “value” in this context. The value customers receive from the transmission system includes voltage stability, frequency stability, the ability to maintain supply/demand balance in real time, the availability of backstop generation when on-site generation fails, and the ability to buy energy from or sell energy to the competitive market. These benefits require physical connections that have associated wires costs. While ENMAX does not believe there is sufficient time before the planned tariff filing in March 2021 to properly measure and attribute these benefits through an updated tariff design, we do believe they must be considered in a longer-term tariff development plan.</p> <p>What “value” must not be interpreted to be is the value customers derive through the production or consumption of electricity. Regarding consumption, the fact that one customer heats an office building, a second produces a product for export, and a third charges a battery-based energy storage system is irrelevant from a tariff perspective. It follows that tariffs must be based on the cost of providing each transmission-system benefit and an appropriate allocation of that cost across all customers. Each customer’s share, in turn, must be based on measurable electrical quantities such as maximum demand or total energy; it must not be based on the characteristics of the customers themselves (subject, of course, to legislative requirements). To the extent that a customer can provide benefits to the grid, it should be compensated through the appropriate market, whether that be the energy market or the ancillary services market (perhaps with new services). For example, all customers that can help restore supply/demand balance through power injections or demand reductions in compliance with the AESO’s technical requirements must be compensated in the same way; the fact that one customer is</p>

an energy storage system and another is an interruptible industrial process is irrelevant.

In view of the foregoing, ENMAX believes it would be appropriate to replace the statement that “Cost recovery is based on the benefit and value transmission customers receive from the existing grid” with something like “Cost recovery is based on the cost of providing each transmission service and an appropriate allocation of that cost across all customers.”

Comments on the AESO’s Objectives

On slide 29 of its September 24, 2020 presentation, the AESO describes its tariff design objectives. Further description is provided in its *2020-2021 Plan for ISO Tariff-Related Activities*, dated September 14, 2020.

Efficient Price Signals

On Slide 29 of its September 24, 2020 presentation, the AESO describes the *Efficient Price Signals* objective as “Price signal to alter behavior to avoid future transmission build.” On page 1 of its September 14 document, the AESO states that consumers need clear and stable price signals so they can make effective business decisions. It also states that price signals must incent the efficient use of transmission infrastructure, effectively reflect the cost of transmission service, be simple, and be adaptive to changing conditions. The AESO indicates that it is “taking steps to modernize the structure of the ISO tariff and design of rates to prepare the ISO tariff for the transformation that is taking place on Alberta’s grid.”

The AESO’s stated goals may be commendable goals in isolation; however, the long-standing goal of “stable” price signals was already thwarted by the dramatic increase in wires costs over the last decade. Moreover, the AESO itself has cited significant instability with possible (and necessary) changes to the 12-CP rate. Given the rapidity of the technological, cost, and market changes that are driving the need for tariff modernization in the first place, it seems unlikely that a “stable” price signal is either achievable or compatible with one that is “adaptive to changing conditions.”

In ENMAX’s view, the AESO should: (i) establish a hierarchy of objectives, and (ii) be more realistic in stating what is achievable. Since “the overall objective is to ensure the AESO continues to facilitate a fair, efficient, and openly competitive market,” which it is legislatively bound to do, this must remain the highest-priority objective. That objective is further supported by the Commission’s repeated determination that adherence to the principle of cost causation—which is a

prerequisite for both fairness and economic efficiency—is of paramount importance in any rate design.

Also on the subject of price signals, ENMAX agrees with the AESO that the 12-CP rate: results in higher rates to customers that cannot respond to the price signal; sends an inefficient signal to reduce consumption, or develop on-site generation to self-supply, during the 12-CP hours without producing a significant reduction in transmission costs; and artificially increases interest in maximizing DCG credits provided by DFO tariffs. In our view, correcting these flaws—especially inter-customer subsidies—must take precedence over simplicity or stability.

Minimal Disruption

Another AESO objective is that “Customers that have responded to the 12-CP price signal and invested to reduce transmission costs are minimally disrupted.” ENMAX agrees that a reasonable transition from today’s tariff to a future tariff with a significantly reduced or eliminated 12-CP rate is appropriate. However, every generation investment made in Alberta since deregulation has been made with the knowledge that there are market, legislative, and regulatory risks. The objective of minimal disruption must not be allowed to thwart changes that would improve the tariff’s efficiency and its fairness toward other customers.

Simplicity

One of the AESO’s objectives is “simplicity and clear price signals while achieving design objectives.” While simplicity may be desirable, it must be the lowest-priority objective. As the AESO notes on page 5 of the September 14 document, “the structure of the ISO tariff has remained largely unchanged since deregulation of the electricity market in Alberta.” It also notes that “connections to the transmission system are shifting away from the traditional one-way power flow to more dynamic two-way flows at many points of connection to the grid.” It seems highly unlikely that the increasing penetration of intermittent generation, energy storage systems, and DCG, along with the consequent move to more dynamic power flows, can fairly or efficiently be dealt with through a tariff structure that is simpler than what already exists.

Innovation and Flexibility

Another AESO objective is that the “ISO tariff provides optionality for transmission customers to innovate while not pushing costs to other customers.” In its evaluation of the current state of the tariff (see p. 30 of the September 24 presentation), the AESO rates innovation and flexibility as “achieves objective.” ENMAX does not

agree with this evaluation. The AESO's own assessment of 12-CP, for example, shows that it pushes costs to other customers.

Comments on the Modular Approach

The AESO states on page 1 of the September 14 document that, "To promote a more nimble approach through this evolution, the AESO has proposed to address changes to tariff provisions with the AUC using a modular approach as opposed to a comprehensive tariff filing." In ENMAX's view, this approach must be used with caution. Since the tariff revenue requirement must be recovered, recovering less of that revenue requirement from one element of the tariff element automatically leads to an increase in recovery from another element. (One example of this is cited by the AESO on page 5, where it notes that the chosen path for the treatment of energy storage can have interactions with rates for system cost recovery.) As such, a detailed review of the knock-on effects of any proposed change is essential.

Thank you for your input. Please email your comments to: tariffdesign@aeso.ca.