Janine Sullivan
Vice President,
Finance and Chief Financial Officer

FortisAlberta Inc
320 – 17th Avenue SW
Calgary, Alberta T2S 2V1
Telephone: 403-514-4992 (direct)
Fax: 403-514-5992
Janine.sullivan@fortisalberta.com

March 23, 2018 **VIA EMAIL**

Alberta Electric System Operator
Calgary Place
2500, 330 – 5th Avenue SW
Calgary, Alberta T2P 0L4

Attention: Doyle Sullivan
Director, Tariff Design

Dear Mr. Sullivan:

Re: FortisAlberta Comments on Alberta Electric System Operator (AESO) 2018 Independent System Operator (ISO) Tariff Application Proceeding 22942 Consultation on DFO Customer Contribution Issue

Introduction

FortisAlberta Inc. ("FortisAlberta" or the "Company") provides the following comments for the consideration of the Alberta Electric System Operator (AESO) in connection with its current consultation regarding scoping for its 2018 ISO tariff application (the Tariff Application).

The scope of the Tariff Application should not be amended at this late date to include consideration of substantial revisions to the AESO's customer contribution policy (the Contribution Policy). In FortisAlberta's view, there is no valid reason to embark upon an *ad hoc* reconsideration of this important tariff issue. None of the issues identified by the parties that participated in the March 5, 2018 meeting reveal a pressing, public interest-based, need to consider fundamental changes to the Contribution Policy at this time. There is no indication that the Contribution Policy is being implemented in a manner that is inconsistent with the ISO tariff, or that its implementation is not otherwise in the public interest.

AltaLink's *ad hoc* proposal neglects consideration of, or context for, the broader structural contribution policy framework, in terms of how the AESO and DFO policies should operate concurrently, and how end-use customers are provided AESO contribution price signals via flow-through of AESO contributions through the respective distribution tariffs. This is regardless of whether these transmission contribution price signals are collected up-front or recovered through the tariff(s) over time, and whether the FortisAlberta end-use customers are transmission connected, distribution connected or are distribution-connected generation.

The ISO tariff does not operate in isolation. Any consideration of the Contribution Policy that might be undertaken in the 2018 ISO Tariff Application must necessarily include an assessment of whether, and to what extent, proposed changes may affect the Commission's overall ratemaking approach for both distribution and transmission utilities. The Company submits that these impacts have the potential to be complex, especially when the interplay between the Performance-Based Regulation (PBR) approach applied to distribution utilities and Cost of Service (COS) ratemaking for transmission utilities is considered.

<u>Response to follow-up Questions posed by the AESO</u>

FortisAlberta is in receipt of the AESO's correspondence of March 15, 2018, in which the AESO asked a number of follow-up questions. The AESO questions and the Company's responses are as follows:

1. Do Rate 63 customers or other customers pay a contribution to Fortis? If so, please show how is it calculated? In the calculations please indicate how transmission contributions are reflected or flowed through.

Yes, there are provisions within the FortisAlberta distribution tariff which permit the flow-through of a "Customer Transmission Contribution" to Rate 63 Large General Service customers. Specifically, *Section 7.2.2 – Other Contributions* of FortisAlberta's currently approved *Customer Terms and Conditions of Electric Distribution Service* states:

> **Customer Transmission Contribution**
>
> FortisAlberta may incur Transmission Costs as a result of entering into contracts with the Independent System Operator for provision of System Access Service in support of a Customer's electricity supply requirements. Transmission Costs include but are not limited to contributions and application fees made by FortisAlberta to the Independent System Operator in respect of a Point of Delivery providing System Access Service to a Customer. Transmission Costs are allocated to Customers as follows:
>
> (a) for a Customer other than a Temporary Service Customer, with an Expected Peak Demand initially 2000 kW or less, no Customer Transmission Contribution will be levied;
>
> (b) for a Customer other than a Temporary Service Customer with an Expected Peak Demand initially greater than 2000 kW, or at any time thereafter, a Customer Transmission Contribution may be required as follows:
>
> i. where a single Customer is served from a new Point of Delivery, the Customer Transmission Contribution equals the Transmission Cost associated with the Customer-requested Optional Facilities (which are Transmission Facilities) as reasonably determined by FortisAlberta;
>
> ii. where a number of new Customers are served from a new Point of Delivery, each Customer is allocated a portion of the Transmission Cost associated with the Customer-requested Optional Facilities (which are Transmission Facilities) as reasonably determined by FortisAlberta, based on the proportion of their Expected Peak Demand to the total expected demand at the Point of Delivery. This allocated cost becomes the Customer Transmission Contribution; and

iii. where an expansion of an existing Point of Delivery is required to provide System Access Service to a Customer or several Customers with increased electricity requirements, any resulting Transmission Cost associated with the Customer-requested Optional Facilities (which are Transmission Facilities) as reasonably determined by FortisAlberta, is allocated to each such Customer based on the proportion of their increase in Expected Peak Demand relative to the total increase in expected demand at the Point of Delivery. This allocated amount becomes the Customer Transmission Contribution; and

(c) for a Temporary Service Customer, regardless of Expected Peak Demand, the Customer Transmission Contribution is equal to the Transmission Cost plus an amount equivalent to the present value of any additional ongoing AESO tariff costs attributable to the Customer as determined by FortisAlberta.

Any obligations associated with the Customer-requested Optional Facilities (which are Transmission Facilities) as reasonably determined by FortisAlberta, undertaken by FortisAlberta in connection with the Independent System Operator's Construction Commitment Agreements become the obligations of the Customer to FortisAlberta.

Any refunds of contributions received by FortisAlberta from the Independent System Operator may be passed on to Customers as described in Section 7.2.3.

The above provisions within the distribution tariff allow the Company to flow-through the price signal associated with the AESO contribution on a whole, or partial *pro rata* basis, to large distribution connected (Rate 63) customers if the Company determines that the transmission facilities requested by the customer are "optional" in nature.

A current example of where a Rate 63 customer may be assessed an AESO contribution is the Grist Lake project. In this case, FortisAlberta has demonstrated to the AESO and the customer that the end-use load can be served cost effectively from an existing POD. However, the customer prefers to be connected to a new POD (Grist Lake Substation) for reliability reasons. The AESO has calculated the resultant AESO contribution for the Grist Lake project per the AESO Contribution Policy. For its part, FortisAlberta has determined that it would treat the customer-requested transmission facilities and resultant AESO contribution as "Customer-requested Optional Facilities" per its tariff with the corresponding AESO contribution being flowed through to the Rate 63 customer as a "Customer Transmission Contribution." Consequently, the customer is able to receive the system access service it requires and is willing to pay for, and other DFO customers are kept whole.

The Company's distribution tariff also requires the flow-through of AESO contributions to Rate 65 Transmission Connected Service customers for their dedicated PODs, and the partial *pro rata* flow-through of AESO contributions to DG customers based on the AESO's DTS/STS substation fraction for the respective POD.

With respect to the issue of flowing through AESO contribution price signals to distribution connected customers, the AESO should also be made aware of a recent direction from the Alberta Utilities Commission (the Commission or AUC) in Decision

21538-D01-2017 with respect to FortisAlberta's 2015 PBR Capital Tracker True-up Proceeding, which stated:

Direction 10:

> In view of concerns noted above, the Commission directs Fortis, in its next Phase II application, to discuss whether some form of pro rata sharing of AESO contributions by end-use customers that drive the need for an AESO contributions project is warranted, including a proposal for an alternate pro rata sharing scheme; or Fortis's views, including a detailed rationale in light of all considerations that Fortis may consider to be relevant, as to why pro rata sharing of AESO contributions by customers other than Rate 65 would not be warranted.

The above direction requires the Company to investigate expanding the flow-through of AESO contribution price signals to end-use distribution connected customers. AltaLink's proposed approach, which would effectively prevent the communication of AESO contribution price signals to DFOs and their customers, appears to be fundamentally at odds with the Commission determination to investigate the *pro rata* sharing of AESO contributions to end-use distribution connected customers. It is also contrary to the Commission endorsed-principle of sending economically efficient price signals to connecting customers (as addressed in the AESO's last comprehensive review of its Contribution Policy).

2. Please provide further details about the "tariff shopping" concern raised during the session and give an example.

FortisAlberta uses the term "tariff shopping" to describe the potential phenomena of an end-use customer having the ability to choose among different regulated tariff provisions (whether that be the ISO tariff or a distribution tariff) for provision of the same regulated service.

Differential application of the ISO tariff to Market Participants will incent "tariff shopping". For example, a large transmission or distribution connected customer (e.g., Rate 63, Rate 65 or an *Electric Utilities Act (EUA)* s.101(2) AESO direct-connect customer) may choose to apply to connect as a FortisAlberta transmission or distribution connected customer, or as an AESO direct-connect AESO customer, depending on how AESO contributions may be assessed and collected from that customer (either upfront *pro rata* collection of the AESO contribution from the customer or recovered over time through an allocation of increased ISO tariff rates/riders). Any potential for large customers to exercise this kind of choice creates a risk of inappropriate shifting of costs and risks among other customers connected to the Alberta Interconnected Electric System (AIES).

AltaLink clarified in the March 5th session that it did not contemplate applying its proposal to finance AESO contributions in respect of contribution amounts flowed through the distribution tariff to end-use customers (as described above for a Rate 63 customer or a Rate 65 transmission connected service). This would mean that the ISO tariff would be differentially applied depending on the terms of the approved distribution tariffs of its downstream DFO market participants and permits ISO Contribution Policy to be dictated, and altered, by the treatment of AESO customer contributions in specific downstream distribution tariffs. In the Company's view, the ISO tariff should be applied to all market participants in an open and non-discriminatory manner. Failure to ensure non-discriminatory application of the ISO tariff will likely make the Company's tariff shopping concerns a reality.

3. AltaLink Management Ltd. (AltaLink) claims that "it is the regulated TFO that owns and maintains the interconnection transmission asset and therefore should be allowed to make the investment in those assets". Is it true that a regulated DFO owns the distribution assets but does not make investment in those assets? Please elaborate.

Yes, similar to the ISO tariff Contribution Policy, which informs the maximum investment levels (MILs) for which the TFO can invest in customer-related transmission assets, DFOs also have a distribution tariff contribution policy, which establishes the MILs for which a DFO can invest in customer-related distribution assets.

In FortisAlberta's *2010/2011 Distribution Tariff Application – Common Approach to MILs*[1] (which resulted from a stakeholder consultation on customer contribution / investment policies and MILs of the major DFOs in the province), it was recognized by the DFOs that the purpose of an investment (or customer contribution) policy is to establish rules and guidelines that govern a utility's investment in customer extensions. These guidelines must allow new customers to receive a fair level of utility investment in their service, while still ensuring that ratepayers are not unduly burdened by the cost of such new extensions.

In the simplest terms, MILs and customer contributions form part of the utility's investment policy and, from the utility's perspective, are the maximum amounts that the Company is willing, or is allowed, to invest towards the cost of extending service to new customers. From the customer or rate class perspective, it is important that the MILs are set to achieve a reasonable and acceptable balance of what an individual customer pays upfront through a customer contribution versus what customers (or rate classes) pay through ongoing average rates.

In reality, what AltaLink has characterized as an unfairness issue at the transmission level occurs at the distribution level and is a natural and necessary part of any utility tariff. That is, each utility tariff typically has a customer contribution and utility investment policy that ensures that balanced price signals are sent to connecting customers to provide economic discipline in the extension of the system. The result is that DFOs, like TFOs, own and operate assets for which a customer contribution was collected for amounts above the MILs, and the DFO does not earn a rate of return on the customer contributed portion of those customer-related costs. This is a natural and necessary feature of any utility tariff that ensures the communication of economically efficient price signals to customers.

[1] FortisAlberta Inc. 2010/2011 Phase I Distribution Tariff Application, Proceeding 212, Appendix O – Common Approach to MILs, June 16, 2009.

4. Does Fortis anticipate that implementing the AltaLink approach would have implications on the PBR process? If so, please explain those implications.

Yes, the Commission's decisions and approvals with respect to the 2018-2022 Performance Based Regulation (PBR) Plans for Alberta DFOs address incremental "K-Bar" capital funding for the second PBR term using an historical average of AESO contributions experienced by the DFOs under the current AESO Contribution Policy in place during the first PBR term. This fixed "K-Bar" funding approach for AESO contributions effectively eliminates any perverse incentive to DFOs to over-invest in the arrangement of system access service that may have existed under COS and replaces it with an economic incentive to the DFO to efficiently manage AESO contribution costs over the PBR term.

To the extent that the AESO were to propose a significant shift in AESO Contribution Policy (i.e., removal of AESO contribution price signals to DFOs and their customers, as proposed by AltaLink), FortisAlberta anticipates that the Commission would likely have to review and adjust its determinations for the DFO's PBR plans/rates to align with such a material ISO tariff change.

5. The following is set out on Fortis Slide 3, first bullet: "Rider I – Amortization of AESO customer contributions; equates to 100% investment level for transmission facility owners (TFOs) / AESO". Please explain what is meant by this statement?

The statement highlights that AltaLink's proposed approach to financing DFO AESO contributions is a "Rider I" -*like* proposal, in that the TFO would not only finance and earn a return on, and of, the costs of the customer-related transmission facilities up to the AESO tariff's maximum investment levels (as recovered through the AESO rates/riders over time), but would also earn a return on, and of, the AESO contribution amounts (also collected through AESO rates/riders over time). This results in the TFO investing 100% in the cost of interconnection facilities being requested by the DFO and/or its customers. In the Company's view, this dynamic provides no incentive to the TFO to manage the costs of customer-related facilities, and eliminates the economically efficient price signals communicated to DFO market participants and their customers.

This issue was also addressed in FortisAlberta's *2010/2011 Distribution Tariff Application – Appendix O – Common Approach to MILs*, where the following principles, among others, were agreed to for purposes of establishing MILs for the distribution tariffs:

1. MILs should be set to achieve a reasonable balance of what an individual customer pays upfront through a customer contribution versus what all customers in a particular rate class pay through ongoing rates. In other words, new customers should receive a fair and sufficient level of investment such that the majority of customers do not pay contributions for connecting, while still ensuring that existing customers are not unduly burdened by the cost of such new services.

2. MILs should provide economic discipline and price signals to new customers as they are connected to the interconnected transmission and distribution system, and these levels should be aligned with encouraging the best long term economic and technical solution to meet standard service requirements.

Concluding Comments

In summary, AltaLink's proposal to refund AESO contributions to DFOs and thereafter charge DFOs (and their customers) a corresponding rider to recover the amortization of those AESO contribution amounts would effectively result in the imposition of a mandatory Rider I, applied to specific market participant(s) for the benefit of the incumbent TFO (in this case, AltaLink). In application, this would result in 100% TFO investment in AESO projects requested by a DFO on a prospective basis, thereby eliminating any AESO contribution price signal to DFOs when arranging and financially settling system access service on behalf of their customers, as required by section 105 of the *EUA*.

The Company submits that such a proposal presents a risk of unjust discriminatory application of the ISO tariff to a subset of market participants, and a preferential and inconsistent application of the Contribution Policy it contains. FortisAlberta submits that this proposal is fundamentally at odds with the provisions of applicable legislation, including the *Electric Utilities Act*, and, consequently, should not be considered in any revised ISO tariff application that may follow the conclusion of the current consultation process.

To the extent that either the AESO or the AUC determines that a comprehensive assessment of the Contribution Policy is required, such an assessment should not be undertaken in the absence of a complete and well-considered consultation process, as was done using a principle-based approach that the AESO and stakeholders reached consensus on in the review of the 2012 AESO Construction Contribution Policy[2] and in the DFO's / FortisAlberta's 2010/2011 DTA – Common Approach to MILs. In FortisAlberta's view, any such process should include, at a minimum, input from all affected customers, market participants and industry stakeholders. The Company does not view the scope or depth of analysis completed at the AESO's March 5, 2018 consultation session, or the subsequent comment process, as being sufficient to support the material reconsideration of ISO Contribution Policy being requested by certain parties.

Please contact me directly at (403) 514-4992 or Miles Stroh at (403) 514-4229, if you have any questions with respect to these comments.

Sincerely,

"Original signed by"

Janine Sullivan
Vice President, Finance and Chief Financial Officer

---

[2] Commission Initiated Application – Electric Transmission Contribution Policy, Proceeding 1162, April 13, 2011.