

Further update of the AESO regarding the 12 CP and DFO CC consultation Alberta Utilities Commission Proceeding 22942

April 30, 2018

The consultation sessions and AESO's determinations

1. Regarding the 12 coincident peak methodology ("12 CP") issue, the Alberta Electric System Operator ("AESO") conducted consultation sessions with interested stakeholders on March 12, 2018 and April 9, 2018. Regarding the distribution facility owner customer contribution ("DFO CC") policy issue, the AESO conducted a consultation session on March 5, 2018. On April 24, 2018, the AESO conducted a consultation session for both matters.
2. The views of stakeholders were presented during the sessions and, in some cases, in writing prior to or following a session.
3. Based on the AESO's own assessment and the views presented by stakeholders, the AESO has determined as follows:
 - (a) 12 CP Issue
 - (i) The 12 CP issue requires further consultation, associated with a robust and thorough analysis over a longer timeframe, before conclusions can be reached regarding whether the 12 CP methodology should be continued, modified or replaced by an alternative methodology.
 - (ii) The regional tariff design should also be the subject of consultation in conjunction with consultation regarding the bulk (12 CP) tariff design.
 - (iii) Stakeholders do not oppose further consultation and analysis of the bulk (12 CP) and regional ("Bulk/Regional") tariff design. The AESO's proposed consultation process was broadly supported by stakeholders and Attachment 1 to this Update is the AESO's initial draft of the proposed process, which includes an initial statement of principles, structure of the consultation, and proposed process and potential timeline. The final design of the process will be determined through the AESO's engagement with participating stakeholders. The AESO will provide updates to the Commission on 6 month intervals. Attachment 1 is being filed for informational and transparency purposes only (i.e., the AESO is not requesting Commission approval of the final consultation process design).
 - (iv) There is broad stakeholder support for the proposition that interim measures in relation to the 12 CP and Bulk/Regional design are not appropriate at this time.
 - (v) As a result of the time required to conduct and conclude the required analysis, it is readily apparent to the AESO and stakeholders that it is not feasible to have the Bulk/Regional tariff design issue considered in Proceeding 22942, as part of the AESO's 2018 comprehensive ISO tariff application ("2018 Comprehensive Application"), and should

be considered outside of Proceeding 22942, in the proposed consultation process.

- (vi) Therefore, and subject to the Commission granting the AESO's motion set out in the Stikeman Elliott LLP cover letter filing this further update, the AESO does not intend to file an amendment to the 2018 Comprehensive Application in respect of alternatives to the 12 CP methodology.

(b) DFO CC Issue

- (i) The AESO will not propose a change to the existing DFO CC policy. The AESO's reasons for reaching this decision are set out below.
- (ii) It follows that the AESO does not intend to file an amendment to the 2018 Comprehensive Application regarding an alternative approach to the current DFO CC policy.

Proposed future consultation process

4. In the event that the Commission grants the AESO's motion to be relieved from filing an amendment to the 2018 Comprehensive Application regarding the issue of whether the 12 CP methodology should be continued, modified or replaced by an alternative methodology, the AESO anticipates that the Bulk/Regional tariff design consultation process will require approximately 12-18 months to bring it to conclusion, regarding whether it should be changed and, if so, to file the requisite application with the Commission.
5. The AESO will endeavor to work with stakeholders to determine whether timeline efficiencies can be achieved for each phase and completion of the process.
6. The proposed scope of the consultation process will involve consideration of a comprehensive tariff design and the analysis will include the following matters, among others:
 - (a) historical analysis of load served by on-site, distribution connected generation or coincident metered demand "bypass";
 - (b) revised transmission cost causation methodology and study;
 - (c) load analysis of major bulk system lines;
 - (d) an understanding of forecast and planning processes;
 - (e) probability of coincident metered demand avoidance;
 - (f) analysis of other bulk and regional cost recovery mechanisms;
 - (g) bypass analysis; and
 - (h) any other analysis that may be warranted.
7. Revisions to existing tariff design could involve changes to functions, functionalization of costs, classification of costs, rate classes, rate design and rates.

8. Additional rate classes such as interruptible, standby, or energy storage will be considered in the comprehensive tariff design consultation process.
9. In the event that the AESO determines that the Bulk/Regional tariff design should not be changed, the AESO will file its conclusions and supporting reasons with the Commission. The AESO expects that stakeholders would wish to provide comments to the Commission regarding the AESO's determination, and supports the Commission providing stakeholders with an opportunity to do so.
10. The tariff design proposed in the 2018 Comprehensive Application, if approved, would remain in effect until the Bulk/Regional issues are resolved through the AESO's proposed consultation process and either a changed tariff design is approved by the Commission or the current tariff design, as applied for, continues in effect.
11. As explained in section 4 of the 2018 Comprehensive Application, the AESO has applied for approval to continue to use the methodology of the 2014-2016 Alberta Transmission System Cost Causation Study, approved by the Commission in Decision 2014-242 regarding the 2014 comprehensive ISO tariff Application.¹ That is, the AESO has, in the applied-for 2018 ISO tariff, used the same tariff design consisting of function definitions, functionalization, classification, rate classes, allocation and rate design. The AESO has used the latest data as inputs into the same tariff design, including data in respect of existing transmission facilities, proposed transmission facilities, operation and maintenance costs, and historical and forecast billing determinants.
12. The AESO's 2018 ISO tariff update, approved by the Commission in Decision 23065-D01-2017 (November 28, 2017), will remain in effect until such time as the Commission approves the 2018 Comprehensive Application. The AESO will apply for approval of its 2019 ISO tariff update application in the third or early fourth quarter of 2018 to be effective on January 1, 2019. As explained in paragraph 10 of this update, if, following the conclusion of the comprehensive tariff design consultation process, the AESO applies for a changed tariff design, it would, if approved by the Commission, replace the current rate design.

Combined consultation regarding the WEM and Bulk/Regional tariff designs

13. In light of the Government of Alberta having determined, as a matter of policy, that the allocation of costs for the capacity market will be based on a weighted energy methodology ("WEM")² and recovered through the ISO tariff,³ the AESO has, in consultation with stakeholders, concluded that it would be more efficient to consider the Bulk/Regional tariff design issues and the WEM tariff design through the same consultation stream, as many of the Bulk/Regional tariff design stakeholders are also interested in the WEM tariff design.
14. Although the Bulk/Regional tariff design relates to transmission system cost recovery and the WEM tariff design relates to capacity market cost recovery, there may be some commonality regarding the cost recovery principles related to the transmission system and the capacity market that can be

¹ Decision 2014-242, *2014 ISO Tariff Application and 2013 ISO Tariff Update*.

² Policy Direction for Alberta's Capacity Market, March 1, 2018, page 2:
<http://www.energy.alberta.ca/AU/electricity/AboutElec/Documents/PolicyDirectionCapacity%20Market.pdf>.

³ Bill 13, *An Act to Secure Alberta's Electricity Future*, Part 2.2, which adds new section 41.45(2) to the *Electric Utilities Act*.

considered through a combined consultation process.

15. While the process will be combined, the AESO recognizes that implementation of the potential methodologies may have different timeframes and that issues related to each may be advanced at different paces during the combined consultation process.

Reasons why the AESO will not propose a change to the DFO CC policy

16. The AESO arrived at its decision that it will not propose a change the DFO CC policy primarily because the issue raised by AltaLink Management Ltd. (“AltaLink”) involves a choice between continuing to include a contribution in the rate base of the DFO or changing the policy to include it in the rate base of the transmission facility owner. The AESO does not consider itself to be the appropriate party to make that policy decision and that it is more appropriate for the Commission to determine the issue. Additional reasons to support the AESO’s decision include:
 - (a) The AESO is concerned that AltaLink’s proposal could be discriminatory and unfair as it would be applied only to DFOs and not direct connect customers.
 - (b) Even if AltaLink’s proposal were applied to all DFOs and direct connect customers, it would resemble Rider I, which the Commission decided in Decisions 2012-364 and 2013-417 should not proceed due to the concerns raised by AltaLink and ATCO Electric Ltd. in Proceeding 1982 regarding credit default risk.
 - (c) AltaLink’s proposal would have to be considered in the context of cost recovery under both transmission system cost of service regulation and distribution system performance-based regulation.
 - (d) The adoption of AltaLink’s proposal by the AESO would be administratively burdensome, including initial design which would require further consultation, as well as implementation and compliance considerations.
17. The AESO notes that AltaLink will have the opportunity to present evidence in Proceeding 22942 in support of its proposed change to the DFO CC policy and any party opposed to AltaLink’s position will have the corresponding opportunity to file evidence in support of its position.

Possible revisions to the 2018 Comprehensive Application

18. Given the passage of time from when the 2018 Comprehensive Application was filed with the Commission on September 14, 2017, and in light of comments received from some stakeholders, the AESO intends to thoroughly review the 2018 Comprehensive Application to determine whether any of the content should be updated and the 2018 Comprehensive Application revised accordingly.
19. The AESO requests that the Commission continue the suspension of Proceeding 22942 while the AESO completes that process. If the AESO determines that the 2018 Comprehensive Application should be revised, it anticipates being able to file an amended application with the Commission by the end of June 2018. The AESO will advise the Commission and parties if the AESO anticipates a change to the expected filing timeline.