



# RESPONSE TO AESO BUDGET PROPOSAL

Michelle Dawson  
Jamie Walker  
Vittoria Bellissimo  
Richard Penn  
November 18, 2020

---

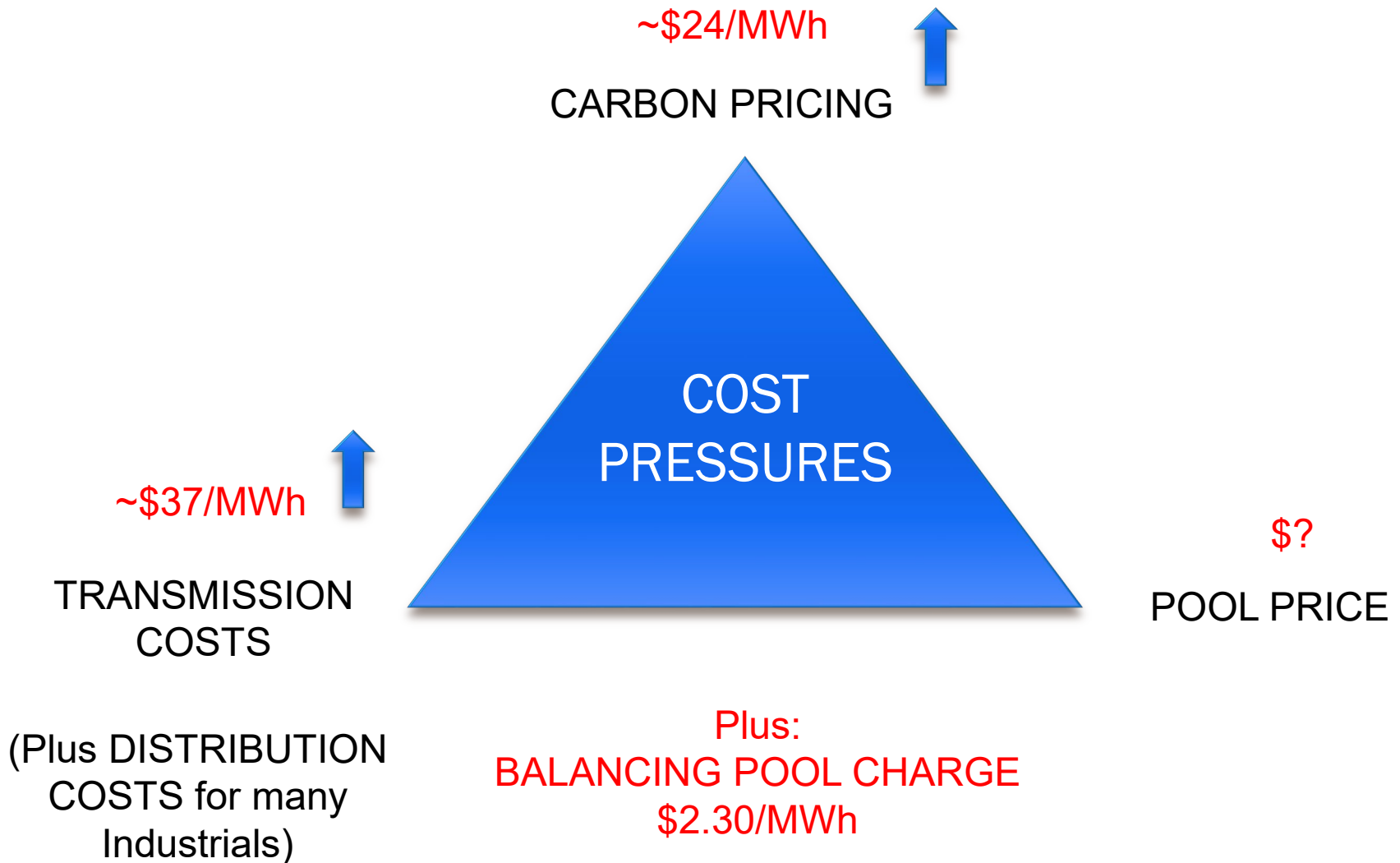
# ABOUT IPCAA

---



- IPCAA was formed in 1983 as a membership-based society representing Alberta's large industrial electricity consumers.
- Our members are involved in key Alberta industries, including Oil & Gas, Pipelines, Petrochemicals, Agriculture and Steel.
- Our mission is to take a leadership role in ensuring that a competitive marketplace exists for electrical services.

# INDUSTRIAL COST PRESSURES



# AESO BUDGET: KEY COMMENTS

---

1. AESO Tariff
2. AESO Own Costs
3. Market Related Issues
4. Settlement Audit
5. Alberta Reliability Standards
6. New Transmission Infrastructure
7. Falling Demand

# AESO TARIFF

- IPCAA agrees that:
  - Cost allocation for transmission infrastructure is a key component in ensuring efficient infrastructure development
  - A strong price signal is required to influence participant behavior
- A review of billing determinants shows that CP is the best option to influence participant behaviour
- The Alberta market has been highly successful to date – and providing investor certainty on rate design is critical to that success.
- No evidence has been provided to support a tariff overhaul.

# AESO TARIFF – CHANGES ARE PREMATURE

- There are many elements that have not been resolved and will ultimately impact the ISO tariff causing further revision, including:
  - The Transmission Regulation being re-examined by government by the end of 2021
  - Government changes related to self-supply and net-export expected in the spring of 2021
  - AUC changes resulting from the Distribution System Inquiry (such as aligning transmission and distribution rates). Further proceedings expected in 2021.
  - AUC changes to sub-station fraction and DCG credit issues need to be addressed.

# AESO TARIFF – CONCLUSIONS

- Undertaking a massive tariff overhaul (during a pandemic and economic downturn) without full knowledge of all the components will lead to instability and rate uncertainty.
- IPCAA emphasizes the following:
  - Rolling out a tariff overhaul during a pandemic is **IRRESPONSIBLE**.
  - You will hear from consumers that a change may require considerable mitigation if we want to keep price responsive loads operating in Alberta (and not leaving the province).
  - The timing for a change is pre-mature.
  - The AESO should work with both the DOE and AUC to resolve the issues impacting the Tariff.

The AESO should continue with the current rate design.

# AESO OWN COSTS

---

- The AESO's 2021 G&A costs are \$94.2M
- The AESO should submit its costs to the AUC for review as part of its Tariff.
- IPCAA continues to advocate that the AESO should annually benchmark its own costs to other ISOs in order to establish the value for money proposition for Alberta.
- It is not helpful to simply say that Alberta is “different.”
- The following table illustrates the costs of the formalized electricity markets in North America (in US dollars).



# AESO OWN COSTS

ISO/RTO	2021 Revenue Req. in (US\$)	Est. 2021 Demand in TWh	2021 Revenue Requirement	Debt Outstanding at 12/31/2021	Authorized FTEs at 12/31/21	GWh/ Authorized FTE
AESO	\$91.9 M	58.4	\$1.57/MWh	N/A	462	126
ISO-NE	\$205.1 M	147.4	\$1.39/MWh	\$93.1 M	584	252
IESO	\$137.0 M	146.0	\$0.94/MWh	\$95.0 M	784	186
NYISO	\$167.4M	147.3	\$1.14/MWh	\$89.7 M	594	248
CAISO	\$181.6 M	237.3	\$0.77/MWh	\$421 M	658*	361
ERCOT	\$229.3 M	401.2	\$0.57/MWh	\$43.0 M	771	520
MISO *	\$308.0 M	750.0	\$0.41/MWh	\$167.0M	939	822
PJM	\$305.0 M	802.0	\$0.38/MWh	\$10.8 M	755	879

Source:

<https://www.nyiso.com/documents/20142/15479095/2021%20Budget%20Presentation.pdf/b4968fc4-d4a7-bbad-8b31-64960ce664a5>

\*2019 Data

# AESO OWN COSTS

- Scale is an issue; however, **all of** these other ISOs provide additional services, many including:
  - Settlement day-ahead and real-time with a 5-minute granularity that enhances reliability, flexibility and investment.
  - Security constrained real-time markets for energy and ancillary services
  - Security constrained day-ahead markets for energy and ancillary services for efficiency and reliability
  - Unit commitment for reliability purposes
  - Interties that can settle at a 15-minutes or 5-minute granularity that enhance both reliability and efficiency
  - Capacity markets for investment decisions

The AESO should benchmark its own costs and submit them to additional regulatory scrutiny

# MARKET-RELATED ISSUES

- Since 2006, IPCAA and other loads and generators have advocated for an updated settlement interval that uses a much smaller time increment, i.e. 5-minutes, instead of hourly average pricing. It has been nearly 15 years since this discussion initially occurred.
- A recent FERC Order 825 (June 16, 2016) stipulates ISOs must settle:
  - *Energy transactions in real-time markets at the same time interval it dispatches energy,*
  - *Operating reserves transactions in real-time markets at the same time interval it prices operating reserves, and*
  - *Intertie transactions at the same time interval it schedules intertie transactions.*
- As they have learned in the US, the **energy and AS markets** send the investment signals for the type of flexible capacity needed.
- An October 22, 2009 report by the AESO stated: “*The concept has benefits both for load participants in the energy market and supply participants, and there is no principle that suggests the settlement interval cannot be changed*”

# MARKET-RELATED ISSUES

- Unlike every other jurisdiction in North America, the AESO has recently concluded that “adoption now is not recommended”
- This decision was made prior to the AUC’s Distribution System Inquiry recommendations where experts recommended Alberta transition residential load to interval metering.
- The AESO should hold-off on decisions such as this until the AUC has provided its vision and timing of future distribution initiatives.

The AESO’s conclusions are premature and should be put on hold until decisions are made by the AUC.

# SETTLEMENT AUDIT

- IPCAA would like to thank the AESO for proposing to undertake its first ever independent settlement audit.
- In other electricity markets this is a normal process every other year in order to assure participants that the billions of dollars of settlements is correct.
- For example, a disagreement with one IPCAA member over an actual monthly system coincident peak timing cost that member \$455,000.
- IPCAA believes the independent audit should include **all** settlement steps including the collection of meter data to affirm the data.
- The AESO should consult with stakeholder on the terms of reference (TOR) for the Audit.

IPCAA welcomes an independent audit  
of the AESO's settlement systems.

# ALBERTA RELIABILITY STANDARDS

- IPCAA agrees that compliance is an absolute necessity and ultimately reduces loads' infrastructure investment costs
- IPCAA members are concerned that the AESO's has increased the regulatory burden on IPCAA members and others for a marginal – sometimes negligible – enhancement in reliability.
- As part of the AESO's Red Tape Reduction efforts, the AESO should reconsider the scale and potential impact a breach may have.
- As the AESO has stated previously: “Moving obligations to another entity does not reduce regulatory burden....”

**IPCAA recommends the AESO review its Reliability Standards to reduce the burden on Alberta industry.**

# NEW TRANSMISSION INFRASTRUCTURE

- IPCAA would like to thank the AESO for its past efforts to maximize the use of the existing transmission system for the Renewable Electricity Program (REP).
- Effective utilization of the existing transmission system helps to reduce costs.
- IPCAA is concerned with the three new proposed large transmission projects and the implication of those costs on continued rising transmission rates.

The AESO should continue to promote effective utilization of existing transmission infrastructure prior to requiring new transmission to be constructed.

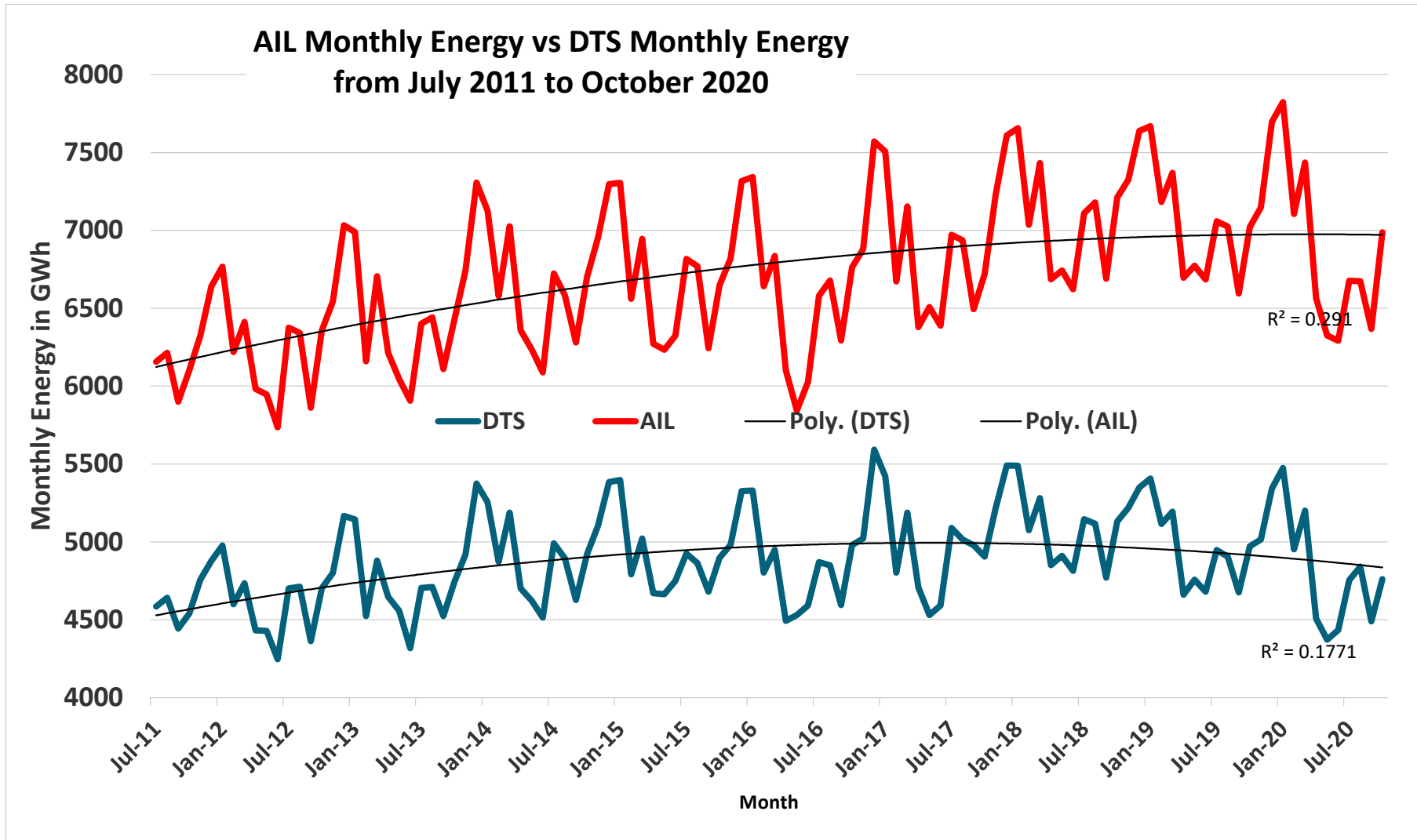
# DECREASING DEMAND

- DTS load pays for Alberta transmission costs.
- The AESO continues to forecast growth in demand; however, this growth has not materialized.
- Actual DTS consumption between 2018 and 2019 (pre-pandemic) fell by 2.4%.

Year	AIL Peak in MW	DTS Peak in MW	DTS Annual Energy in GWh
2017	11,432	8,422	59,760
2018	11,169	8,643	61,156
2019	11,355	8,414	59,676



# MONTHLY AIL AND DTS ENERGY



# QUESTIONS?

Please feel free to contact us:

- Vittoria Bellissimo, *Executive Director*  
(403) 966-2700  
Vittoria.Bellissimo@IPCAA.ca
  
- Richard Penn, *Senior Policy and Regulatory Analyst*  
(403) 903-7693  
Richard.Penn@IPCAA.ca