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January 12, 2021

Spencer Hall  
Alberta Electric System Operator  
2500, 330 - 5th Ave SW  
Calgary, AB T2P 0L4

Dear Mr. Hall

SUBJECT: Bulk and Regional Tariff Design Stakeholder Session

I write on behalf of the cities of Lethbridge and Red Deer, who wish to share their feedback on the presentation and materials from the AESO's December 10<sup>th</sup> session. Following that session, the AESO requested parties to respond to questions. The cities' response is provided below.

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Question 1:

Please comment on Session 4 hosted on Dec. 10, 2020. Was the session valuable? Was there something the AESO could have done to make the session more helpful?

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The cities consider the AESO's December 10<sup>th</sup> session to be useful in summarizing where there is general agreement amongst proceeding participants and where there is more entrenched disagreement.

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*Question 2:*

*Do you have a view on whether an embedded or marginal cost allocation approach will more appropriately meet the AESO's rate design objectives? Why?*

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As discussed in our previous response to question 2 last November, the cities consider an embedded cost allocation method to be a more practical approach. This is also more consistent with Bonbright's "practical-related" rate design attributes.<sup>1</sup>

A marginal cost approach to allocating transmission costs is problematic because marginal cost is only a theoretical concept. In the short-run the marginal cost of an incremental unit of capacity is virtually zero (the additional cost to provide one more MW of capacity is negligible) and determining the long-run marginal cost of additional capacity is still highly dependant on multiple assumptions, all likely to be controversial and add additional regulatory debate, delay and cost. Moreover, the long-run marginal cost will not look much different than embedded cost, apart from inflation.

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*Question 3:*

*a) Do you have a preference for any of the mitigation options presented at Session 4? Why or why not?*

*b) Do you know of any additional mitigation options that have worked in other contexts and might be applicable here. Please specify.*

*C7) What do you think the AESO's needs to achieve with its mitigation(s)? Why*

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As discussed in our previous response to questions 2 and 3 last November, the cities prefer a phasing-in approach to any of the bill adjustment approaches. The

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<sup>1</sup> See page 384 of Principles of Public Utility Rates: Practical—related Attributes: 9. The related, practical attributes of simplicity, certainty, convenience of payment, economy in collection, understandability, public acceptability, and feasibility of application.

10. Freedom from controversies as to proper interpretation.

fundamental problem with a bill adjustment approach is that it does not encourage new (and preferable) customer behaviour. Existing customers have already demonstrated that they can respond to a price signal. The purpose of updating the AESO rate design is to provide a different price signal in order to incentivize behaviour that is beneficial to the system. If bills are adjusted, then there is no or limited reason for these customers to adopt the desired behaviour. The cities also note that at this point it is not clear that any mitigation measure will be needed, depending upon what new price signal is chosen and how quickly the price-responsive customers react.

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*Question 4:*

*Are you supportive of the areas of agreement presented at Session 4?  
Why or why not?*

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Based on the discussion and submissions to date, the cities would consider there to be general agreement on the issues highlighted by the AESO.

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*Questions 5:*

*Are you supportive of the areas of disagreement presented at Session 4?  
Why or why not?*

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Based on the discussion and submissions to date, the cities would agree that the areas highlighted by the AESO represent the issues of greatest disagreement.

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*Question 6:*

*Are there considerations that the AESO could include in its rate design proposal that would move you to at an area of agreement on any of the areas of disagreement (refer to question 5 above)? Please specify.*

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Given the relative positions of the various parties on the main areas of disagreement, the cities are unable to offer any additional insights as to how to move parties from areas of disagreement to agreement.

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*Question 7:*

*Are you supportive of the areas of agreement for energy storage presented at Session 4? Why or why not?*

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Based on the discussion and submissions to date, the cities would consider there to be general agreement on the issues of energy storage highlighted by the AESO.

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*Question 8:*

*Are you supportive of the areas of disagreement for energy storage presented at Session 4? Why or why not?*

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Based on the discussion and submissions to date, the cities would agree that the areas highlighted by the AESO represent the issues of greatest disagreement.

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*Question 9:*

*Are there considerations that the AESO could include in its rate design proposal that would move you to at an area of agreement on any of the areas of disagreement for energy storage (refer to question 8 above)? Please specify.*

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As the cities noted in their November 20<sup>th</sup> response to question 2, it is first necessary for the AESO to provide clarification around what behaviours are beneficial to the system. Once it is understood which behaviours should be encouraged and which behaviours should be discouraged, the necessary price signal should become more obvious.

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*Question 10:*

*Do you have any comments on the AESO's proposed stakeholder engagement process, including the mitigation process, for the remainder of the Bulk and Regional Rate Design engagement?*

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The cities have no comment on the AESO's proposed stakeholder process other than the say that it would be helpful if the AESO were to make available a fully developed proposed tariff with explicitly defined billing determinants and indicative pricing for those billing determinants before an application is filed.

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*Question 11:*

*Do you have additional clarifying questions that need to be answered to support your understanding?*

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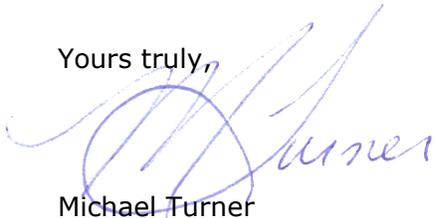
*Question 12:*

*Additional comments*

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The cities undertook to provide helpful responses that supplement their November 20<sup>th</sup> submission, and have no additional comments or clarifying questions. We trust that these supplemental comments will be received in the constructive spirit that they are intended. Should any of our comments require further clarification, please feel free to contact me at (403) 781-7691.

Yours truly,



Michael Turner  
President

cc: Jim Jorgensen, City of Red Deer  
Stew Purkis, City of Lethbridge