Stakeholder Comment Matrix & Proposal Evaluation – Nov. 5, 2020

Bulk and Regional Tariff Design Stakeholder Engagement Session 3

Period of Comment:	Nov. 5, 2020	through	Nov. 20, 2020	**Contact:**	Akira Yamamoto
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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 evaluation to tariffdesign@aeso.ca by **Nov. 20, 2020**.

The AESO is seeking comments from Stakeholders on Session 3 and the preferred rate design option proposals. Please be as specific as possible with your responses.

Questions	Stakeholder Comments
1. Please comment on Session 3 hosted on Nov. 5, 2020. Was the session valuable? Was there something the AESO could have done to make the session more helpful?	***The AESO should have adhered to a more typical approach to Cost of Service (COS) to guide this consultation*** The AESO should have planned the stakeholder sessions through a progression through the typical steps of a COS study (i.e. functionalizing, classifying and allocating costs) before asking for alternative proposals. Because the AESO only provide one other way to functionalize cost, no information about cost drivers or alternatives to cost categorization based on cost characteristics (fixed vs. variable), and only the current set of billing determinant and its own preference of regional billing determinants, the alternative proposals were stifled at their outset. We had high expectations about this process with the promise of third-party expertise from Navigant that was to provide expert findings on the tariff designs elsewhere. Instead, the Navigant report provide approaches to allocate costs in industries other than electricity. It would also seem that the AUC had similar expectations of a thorough analysis and review after ordering this exercise again in the 2018 ISO Tariff decision such that the work done may stem the constant rehash

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Questions	Stakeholder Comments
	of issues raised by intervenors about the flaws of the existing rate design in regulatory proceedings While the AESO wisely cut out further use of Navigant, it replaced that third-party consultant's expertise with its own. In fairness, this was done after months of making limited progress in an industry working group model. Unfortunately, these limitations and reactions have come at the cost of time and effort to truly build out analysis that may have helped to assess whether the current model is deficient, where it is deficient, and alternative approaches to remedy those deficiencies. Instead, we are left in place where we are just proposing different ways to allocate costs based on two ways that the AESO has decided it could functionalize costs (bulk and regional or inter- and intra-regional). Unsurprisingly, we have hit a cycle where the output is only as good as the input and we have seen little in the way of new analysis or findings that re-stimulate the discussion. Had we followed a more structured approach that follows a more typical COS study approach, we may have found ourselves in a different position where each stage actually built on the last with objective data and analysis guiding through choices in rate design. The benefit of such an approach is that the whole of the process is not thrown out because progress is made in each step based on the evidence that guide those choices. The problem with the approach we have adopted is that we just run to the end game based on opinions and the vigour of argument and not fact. It seems clear at this stage that none of the stakeholders has the appetite to pursue a change to the current model. Even those that have tabled proposals that are significantly different that the current model, like the Suncor and the CWSSA/UCA/AML/Conoco, are not advocating that these changes be pursued at this time given our present health and economic challenges where there are higher priorities than rate design. We recommend that the AESO use the remaining time and resource effort to perform some cost analysis that could help in the future but may also help to focus the tariff modernization on changes that could provide relief under the current design, support load growth and the competitiveness of the Alberta market, and create new tariff features that can be leveraged in the future if built into our framework. More specifically, analyze costs so that they can be categorized and applied to develop expanded Demand Opportunity Service (DOS) rates, build on

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	the framework based on the *Delivered Cost of Electricity* analysis to develop load retention rates, and create new load attraction rates to stimulate economic development and transmission utilization in Alberta.
2. Please complete **Table 1: How Did Each Proposal Achieve the Rate Design Objectives** for each of the proposals presented at Session 3.	***A subjective evaluation of each of the proposal has little value at this time*** We note that only three of the proposals made at the session were truly bulk and regional tariff design proposals (i.e. Suncor, CCA, CWSSA/UCA/AML/Conoco). ADC/DUC/IPCAA advocated for retaining the existing tariff rate design and, therefore, does not represent a different proposal. We further note that the "proposals" for CanREA/Solas, ESC/Power Advisory, and RMP Energy Storage were only arguments about the tariff treatment for energy storage and did not represent a bulk and regional tariff design proposal – TransAlta cautioned the AESO from combining the matter of energy storage within the bulk and regional tariff design forum because it is a much narrower scope that does not fit well with the broader discussion that should be the focus of bulk and regional tariff design consultation. We continue to recommend that the AESO split out the discussion of energy storage tariff treatment into its own consultation rather than attempt to discuss this within bulk and regional tariff design consultation. The AESO current approach is like trying to design the framework of a house while also trying to pick the interior paint colour of one of the bedrooms – while both topics relate to the house they clearly are not aligned in scope or aim. With respect the bulk and regional tariff proposals, we provide the following comments with respect the aspects of the proposal that we believe warrant further consideration: • ***The tariff design should consider Ramsey pricing*** ADC/DUC/IPCAA noted in their presentation the concept of Ramsey pricing. The current tariff design with its use of 12-CP allows transmission connected load to demonstrate the elasticity of their demand to transmission pricing and creates, albeit potentially unintentionally, outcomes that may be consistent with Ramsey pricing. We find this concept to be compelling rationale for remaining with the 12-CP allocator for bulk system costs.

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	• ***Marginal cost is a fair proxy for variable (avoidable) cost*** Suncor's and the CCA's proposals discuss the need to determine marginal costs. We agree an analysis that provides information about marginal costs is important as a proxy for categorizations of functionalized costs into their fixed and variable components. We have seen a sparse amount of cost information (which was the functionalization into intra- and inter-regional cost categories) which is too little to inform a discussion on rate design changes. • ***Delineate between demand and non-demand driven costs*** Suncor's proposal was the only proposal that presents an approach of delineating between marginal cost and average (total) costs. This approach aligns with our recommendation in our October 8, 2020 comments to perform a cost analysis that classify costs by demand-driven and other planning factor driven costs. Also as discussed in our comments, applying a coincident peak billing determinant to costs that are not really caused by a customer's contribution to peak demand may be inappropriate and, as Suncor has proposed, the more appropriate cost may be limited to marginal cost. Suncor recommends that the costs that are above marginal cost (which approximate the costs that were driven by other planning factor reasons) should be allocated based upon customer connections. • ***Coincident peak may not be an appropriate billing determinant for costs that are non-demand driven*** The CCA and CWSSA/UCA/AML/Conoco all recommend the replacement of coincident peak with non-coincident peak billing determinants. While the CCA creates a large bucket of costs by adding regional costs to bulk system costs to be allocated through non-coincident peak demand, CWSSA/UCA/AML/Conoco proposal only allocates bulk cost through non-coincident peak demand. Both proposals justify the use of non-coincident peak on the basis that the costs that are not demand driven. • ***Load attraction rates should be considered to create value from underutilized transmission capacity*** CWSSA/UCA/AML/Conoco recommend consideration of load attraction rates and expanded use of Demand Opportunity Service (DOS). We agree. We

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	should consider mechanisms to attract economic development and load into Alberta particularly as we face challenging economic times during this pandemic and as we recover post-pandemic. • ***Energy storage rates should reflect the condition of interruptibility the resource accepts*** ESC/Power Advisory and RMP Energy Storage propose some allocation of costs to energy storage but at a rate that is lower than the current Demand Transmission Service (DTS) or DOS. ESC/Power Advisory propose that the costs associated with administration of the transmission system be allocated to energy storage. RMP Energy Storage propose a DOS rate that is lower than all of the existing DOS rates to reflect the curtailability of energy storage load. While we are unclear if ESC/Power Advisory is really speaking about costs that are allocated through the trading charge and would be applied to energy storage, but we agree with the concept that energy storage that is entirely interruptible such that it only has access to underutilized transmission capacity should be charged at a rate that does not include the capital cost of the system.
3. Which rate design option proposal, including the AESO's bookends A and B presented at Session 2, did you prefer? Why?	***Its too early and there is not enough information yet to express a preference*** TransAlta is not in a position with the information provided to preferred any of the proposals relative to the status quo. As discussed in question 2 above, we see merit in considering aspects of several of the proposals made at the session. We recommend that further work be done to explore the noted aspects and then revisit whether alternative designs should be further explored.
4. Does your preferred proposal meet all the rate design objectives? If not, what trade-offs does your preferred proposal create between the rate design objectives? Why are those trade-offs appropriate?	See our response to question 3 above.
5. Which stakeholders are best served (or least impacted) by your preferred proposal? Why?	***The stakeholders that proposed a rate option were advocating for their own best interest***

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	• IPCAA/ADC/DUC proposal to maintain the status quo is to ensure that they can continue to keep their transmission costs down with the monthly coincident peak avoidance practices their customers employ. • Suncor's proposal to use customer connections is an attempt to allocate excess transmission build costs away from large billing capacity self-supply customers to other customers. • CCA and CWSAA, UCA, AML and Conoco proposal for the replacement of coincident peak with non-coincident peak allocation clearly benefits residential and small consumers by pushing more costs to industrial customers with high contract amounts. • CanREA and Solas, ESC and Power Advisory, and RMP Energy Storage advocated for minimal or no transmission costs for energy storage. The stakeholders that presented put in effort to advance their concerns by proposing approaches that address them – this necessarily results in trade-offs between those customer group constituents given the zero-sum nature of cost allocation. A cost causation study would be very helpful in determining if there is truly an issue with a misallocation of costs.
6. a) Which stakeholders are most impacted by your preferred proposal? Why? b) What mitigations, if any do you recommend for those who would be impacted by your preferred proposal?	See our response to question 3 above.
7. a) How would energy storage resources be treated in your preferred proposal? b) Does your preferred proposal include specific elements in relation to tariff treatment for energy storage? Why or why not?	See our responses to question 2 above and question 9 below.
8. What are the challenges or unresolved questions with your preferred proposal?	See our response to question 3 above.

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9. Additional comments	With respect to the objective of tariff modernization, we recommend that we further explore a framework to introduce: • **Load Retention Rates –** Currently, the closest proxy for a load retention rate are site-specific bypass rates. These rates are based upon the estimated operating and capital cost of transmission facilities that would have otherwise been developed to bypass the transmission system. A load retention rate developed on a general or site-specific basis should be developed and offered to site's that are currently connected to the transmission system but based upon the operating and capital cost of self-supply generating facilities. The rate would be offered to sites on voluntary basis – in other words, the site can choose whether or not to take the rate or develop their own self-supply generation. If offered on a general basis, this rate could use the AESO's *Delivered Cost of Electricity Estimates* information to develop a rate that keeps the cost of grid-supply power at parity with self-supply options. Alternatively, this could be offered on a site-specific basis; however, we do not favour this approach because it is unlikely that the regulatory process for approving such rates would timely enough to be practically implemented. • **Expanded DOS Framework –** The DOS rate framework should be expanded to contemplate rates for non-DTS customers. We view this as most applicable to low load factor customers (that have a small percentage utilization of their total contract capacity) such as energy storage or standby power customers with rates that recognize the interruptibility of the service. The costs that are allocated to such customers should seek to recover the costs that are reasonably caused by those customers. For example, a customer that is fully interruptible with notice less than 7 minutes, as in the case of some energy storage, the costs should not include the capital cost of the system and should only reflective of the variable cost or marginal operating costs on a MWh basis. • **Load Attraction Rates –** As an interim measure, we agree with the use of load attraction rates as a way to compete for economic development in Alberta versus other jurisdictions. We acknowledge that this should ultimately be directed through government policy but also view work done in this tariff

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	initiative to consider how this could be designed as a proactive approach to support the province. A key criterion for eligibility for these rates would be that these are new or incremental loads customers and the rates that these customers should reflect be based on marginal cost.

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

Table 1: How Did Each Proposal Achieve the Rate Design Objectives

Objective	Description	Example	Proposal 1 ADC, DUC and IPCAA	Proposal 2 Energy Storage Canada	Proposal 3 CWSAA, UCA, AML, and Conoco	Proposal 4 CCA	Proposal 5 CanREA	Proposal 6 RMP Energy Storage	Proposal 7 Suncor Energy Inc.
Reflect Cost Responsibility	Cost recovery is based on the benefit and value transmission customers receive from the existing grid			N/A			N/A	N/A	
Efficient Price Signals	Price signal to alter behavior to avoid future transmission build			N/A			N/A	N/A	
Minimal Disruption	Customers that have responded to the 12-CP price signal and invested to reduce transmission costs are minimally disrupted			N/A			N/A	N/A	
Simplicity	Simplicity and clear price signals while achieving design objectives			N/A			N/A	N/A	
Innovation and Flexibility	ISO tariff provides optionality for transmission customers to innovate while not pushing costs to other customers			N/A			N/A	N/A	

**** Proposed rate design must fit within current legislation ****

Legend	Achieves objective	Potentially achieves objective with modification	Partially achieves objective	Potentially partially achieves objective with modification	Does not achieve objective