

Bulk and Regional Tariff Design – Targeted Mitigation Engagement Status Report

I. Overall purpose and objectives

The AESO's overall purpose of this targeted mitigation engagement is to work with the stakeholders most heavily impacted ("impacted parties") by the preferred Bulk and Regional Tariff rate design to identify a path to a minimally disruptive transition to the new rate design. The impacted parties are those with an estimated transmission cost impact of greater than 10 per cent increase under the AESO's preferred rate design. This is an opportunity to work together to minimize impacts and reach an agreement that is acceptable to all or most of the impacted parties in advance of an Alberta Utilities Commission ("AUC") proceeding. The outcomes of this targeted engagement will be tested by the AUC, who will make a decision on the overall rate design and any agreements on mitigation that are reached through this engagement process.

The AESO's specific objectives of this targeted mitigation engagement include:

- Reach a shared agreement on a temporary mitigation option that supports a 'path to minimal disruption'
- Engage efficiently and actively at the table to progress conversations forward
- Achieve regulatory efficiency in the resulting AUC proceeding by putting forward a solution that is acceptable to all or most of the impacted parties, the AESO, and the broader stakeholder group

II. Engagement overview

The AESO is seeking to temporarily mitigate rate shock for the impacted parties who would see a 10 per cent or greater increase in transmission costs as they transition to the AESO's preferred rate design (assuming AUC approval). A targeted mitigation engagement workstream was designed to engage with these impacted parties directly. To date, each impacted party has been engaged in:

1. A kick-off meeting with the AESO and Stack'd to introduce the AESO's proposed targeted mitigation engagement process;
2. A subsequent 1:1 meeting with Stack'd to help Stack'd to gain a better understanding of the implications of the preferred rate design on each impacted party and explore preferred mitigation options; and
3. Two working sessions with all of the impacted parties to introduce, discuss, and develop the mitigation option(s) that deliver the best holistic outcomes for all stakeholders.

Should the AESO and the impacted parties determine there may be a workable mitigation solution, the artifact developed at the end of this engagement is a Memorandum of Agreement (MOA) that will be presented to the broader stakeholder group and the AUC as part of the formal Bulk and Regional Tariff Application.

The AESO has engaged Stack'd Consulting to facilitate the targeted mitigation engagement sessions.

III. Definition of success

Once conversations commenced, it became clear that the AESO's definition of success and impacted parties' definition of success were not aligned. The AESO viewed successful mitigation as a temporary measure to minimize rate shock to the threshold defined by the AESO (e.g., below the 10 per cent threshold) while impacted parties adjust to the new rate. The AESO restated its previously shared views that the current rate design is not providing appropriate cost signals and is not resulting in a fair allocation to customers. The AESO stated that its mandate is to develop a just and reasonable ISO tariff for Alberta, and not to ensure that individual companies can remain competitive in Alberta as an outcome of the tariff changes. The AESO is relying on legislative guidance to develop the preferred rate design and has not completed analysis on the overall impact of the preferred rate design on the Alberta economy.

Impacted parties raised concerns about overall system costs and suggested the preferred rate design is not addressing the problem. Impacted parties viewed successful mitigation as a permanent solution that: (a) maintains the current cost levels, which they view as appropriate cost levels, (b) values the flexible characteristics of the price responsive loads, and (c) provides an opportunity for the impacted parties to remain competitive in Alberta. Given that the AESO views mitigation as temporary, the impacted parties view the AESO's definition of success as having the potential to result in the seven impacted sites ceasing operations.

Impacted parties understood, but were not aligned with the AESO's objectives, and reaffirmed throughout the roundtable discussions their expectations that targeted mitigation needed to be a permanent rate class that reflects their flexibility and perceived value provided to the system. The impacted parties indicated that, because power costs comprise a large portion of their operating costs, they cannot agree to a temporary mitigation option that creates business uncertainty and amounts to a delay of the cost impact associated with the preferred rate design.

IV. Mitigation options

The three alternatives proposed and discussed as potential options for mitigation include:

1. The AESO proposed a phasing-in of the rate and/or bill credits (i.e., temporary bill adjustment to allow a transition to the preferred rate design over time).
2. The AESO and impacted parties will consider how a modernized demand opportunity service (DOS) rate could provide a means for certain highly impacted parties to continue to economically connect to the system.
3. Impacted parties proposed a non-firm interruptible rate class (i.e., a separate rate class for flexible loads that exists permanently and maintains costs for these loads where they are at today and would be distinct from DOS).

Bill credits

Bill credits were discussed as an option presented by the AESO. The AESO indicated that it viewed temporary bill credits as the leading mitigation option.

Impacted parties expressed concern over the risk of the credits being declared a subsidy and therefore a violation of international trade agreements. Impacted parties also did not agree with the temporary nature of the credits proposed. Further, impacted parties expressed concerns over the costs of Alberta's transmission system. They stated that they are paying their fair share of transmission costs such that no credits should be required.

Similarly, a phasing-in concept was not well received, as impacted parties disagree with the temporary nature of the mitigation proposed. In their view it is not true mitigation if it only defers the outcome of certain sites ceasing operations.

Demand Opportunity Service (DOS)

DOS was presented by the AESO and discussed as a potential path forward for loads that may be uneconomic if the AESO's preferred rate design is accepted and implemented. The conversation shifted throughout the two roundtable discussions from viewing DOS as a mitigation alternative to viewing it as a potential recourse if mitigation is insufficient to support the economics of these loads under the preferred rate design, and is an option to allow the loads to continue contributing to the revenue requirement of the system while eligible for the DOS rate. Given the short-term nature of DOS approvals, the requirement to be uneconomic using Demand Transmission Service (DTS) rates to be eligible, and the uncertain nature of potential changes to DOS following an upcoming redesign process, impacted parties' initial view was that for DOS to be a viable option its structure would need to materially change.

Non-firm, interruptible rate class

An interruptible rate class for flexible loads was the preferred mitigation option for impacted parties. Impacted parties believe that this option best meets their definition of success of a permanent and ongoing adjustment to the rate that maintains current transmission cost signals and overall costs for the impacted parties. The AESO does not see the value that an interruptible rate class would bring to the system and suggests that the preferred rate design would reflect better cost responsibility for all stakeholders, including the impacted parties. The AESO also does not believe that it can deliver an interruptible rate class as desired by the impacted parties within the current legal and regulatory framework. Impacted parties expressed the view that there does not appear to be any language in the *Electric Utilities Act* that would prohibit a new interruptible rate class. The AESO stated that they explored non-firm rates and shared their conclusions at the March 25th engagement session. Impacted parties requested an opportunity to review the AESO's studies and analysis that resulted in the conclusion that interruptible rate classes would not meet legislative requirements or cost causation principles. Impacted parties also requested that the AESO share how it evaluated the [ADC's previously proposed interruptible rate class](#). The AESO indicated that the impacted parties are free to propose their own interruptible tariff to the AUC.

V. Next Steps

Given the lack of potential mitigation solutions that could align the AESO and the impacted parties, it was generally agreed that a better understanding of DOS modernization is needed before targeted mitigation discussions can continue effectively. The targeted mitigation roundtable discussions will be rescheduled until after the modernized DOS materials have been shared and discussed publicly. The AESO is still interested in exploring temporary bill credits with impacted parties