

Bulk and Regional Tariff Design – Targeted Mitigation Engagement Summary

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 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 for 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

Impacted parties advised that they are participating as a means to manage future cost increases as they have already experienced significant cost increases and believe any additional rate shock should not temporarily reduce impacts but rather requires a permanent mitigation solution.

II. Engagement overview

The AESO is seeking to temporarily mitigate rate shock for the impacted parties. A targeted mitigation engagement workstream was designed to engage with these impacted parties directly. A status report was provided to stakeholders on May 4, 2021, which covered the initial activities that impacted parties were engaged in including:

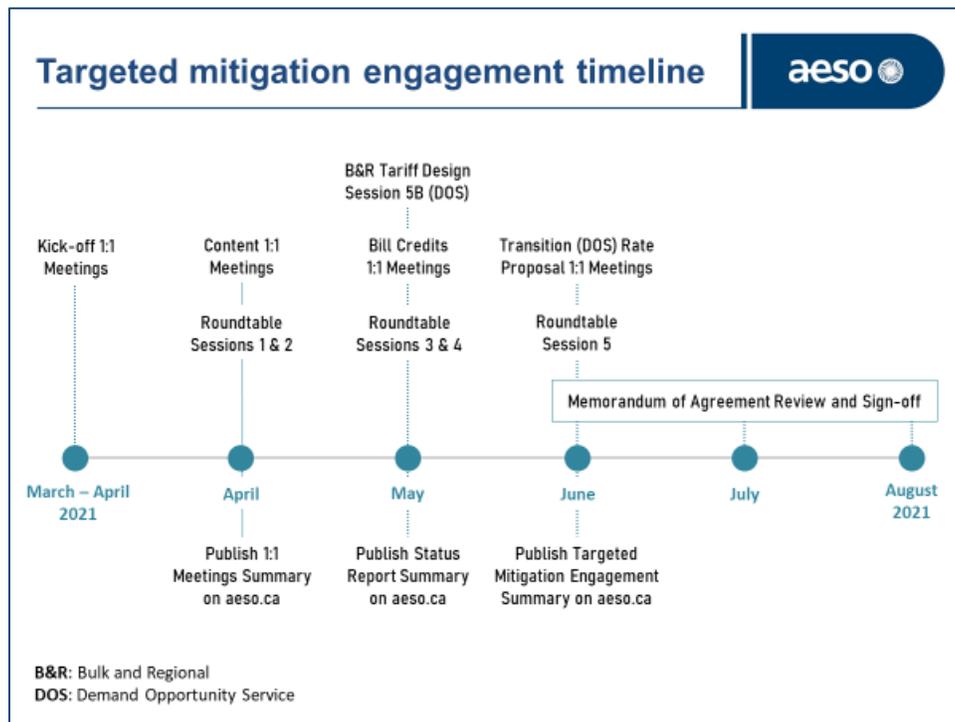
1. A kick-off meeting with the AESO and Stack'd Consulting (Stack'd) to introduce the AESO's proposed targeted mitigation engagement process;
2. A subsequent 1:1 meeting with Stack'd to help Stack'd to gain a better understanding of the implications of the preferred rate design on each impacted party and explore preferred mitigation options; and
3. Two roundtable 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.

Since the status report was issued, impacted parties were subsequently engaged as follows:

4. Three roundtable working sessions were held with all of the impacted parties to continue to discuss and develop the mitigation option(s) that deliver the best holistic outcomes for all stakeholders. The AESO and the impacted parties did not reach agreement on a holistic mitigation solution, and further discussions were limited to temporary options the AESO found acceptable;

5. Each impacted party was provided a bill-impact estimate of their expected transmission bill impact if a version of the Demand Opportunity Service (DOS) rate was applied as proposed temporary mitigation; and
6. One-on-one meetings were held with the AESO to understand how DOS as a mitigation measure could work for their site and, where there was interest, to discuss bill credits.

The AESO is developing a Memorandum of Agreement (MOA) based on the engagement completed to date, and will continue to iterate with the impacted parties through the end of August 2021 to determine which impacted stakeholders may sign the MOA. The final MOA will be presented to the broader stakeholder group and the AUC as part of the formal Bulk and Regional Tariff Application.



III. Definition of success

At the outset of the targeted engagement, 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 design. 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.

Impacted parties raised concerns about the unaffordability of overall system costs and their impact on Alberta competitiveness 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 structure, which in their view is appropriate, (b) values the flexible characteristics of 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.

Despite a continued lack of agreement on the definition of success, the engagement has continued, and a Memorandum of Agreement is being drafted and discussed to mitigate rate shock for a temporary period as the new rates are implemented.

IV. AESO's mitigation proposal starting principles

At the Bulk and Regional Tariff Design Stakeholder Engagement Session 5 on March 25, 2021 the AESO shared its starting principles for mitigation, specifically that it is seeking to develop a mutually acceptable mitigation proposal with the impacted parties that will:

1. **Limit the rate impact for customers:** Mitigate rate impact to under 10 per cent increase to a party's transmission bill for the initial stage of transition;
2. **Adapt with design and rates:** Ensure mitigation options are adaptable to changes to the proposed design and forecast rates;
3. **Consistent application:** Ensure mitigation options can be applied consistently across all impacted loads and not be individually defined;
4. **Administrative simplicity:** Develop mitigation options that are feasible to implement with current tools and systems; and
5. **Mutually acceptable:** Account for feedback from broad stakeholder group.

These principles are not shared by the impacted parties.

V. Mitigation options

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

1. The AESO proposed a phasing-in of the new rate design rate and/or bill credits for impacted parties (i.e., temporary bill adjustment to allow a transition to the new rate design over time).
2. The AESO and impacted parties will consider how a modernized 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 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 in 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.

Further discussion on bill credits occurred with interested parties and bill credits will be put forward as a mitigation option.

Demand Opportunity Service (DOS)

Demand Opportunity Service (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. Impacted parties had concerns about the modernized DOS recommendation presented to the broad stakeholder group on May 20, 2021 and how it would work for their sites, specifically:

- The short-term nature of DOS approvals;
- The requirement to be uneconomic under the Demand Transmission Service (DTS) rate to be eligible;
- The uncertain nature of potential changes to DOS following the DOS modernization process;
- Limits to the electable amount of load under DOS;
- Simplification of the bidding process; and
- Impacts to the net-metering practices at these sites.
- Ability for sites to invest in Alberta facilities as there is no certainty of DOS availability.

Impacted parties' initial view was that for DOS to be a viable option its structure would need to materially change. A variation of the modernized DOS recommendation was developed by the AESO, known as the Transition (DOS) Rate (discussed in further detail in the MOA section), to address impacted parties' concerns and is being put forward as a mitigation option.

Non-firm, interruptible rate class

An interruptible rate class for flexible loads was the preferred mitigation option for impacted parties. Impacted parties are of the view 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 impacted parties found no supporting evidence that the current legislative framework could not support different rate classes determined by operational characteristics of loads. The AESO does not see the value that an interruptible rate class would bring to the system and does not believe that such a rate class is aligned with the legislative framework. The AESO indicated that the impacted parties are free to propose their own interruptible tariff to the AUC.

The AESO shared how it evaluated non-firm rates in the context of its rate design. The AESO's evaluation and rate design concludes that the amount of costs recovered on the 12-CP (Coincident Peak) charge is being over-allocated in the current rate design, resulting in an over-valued CP signal strength. Additionally, for an interruptible rate class to contribute value to the grid by reducing transmission costs, it would need to include a locational signal. Accordingly, the AESO will not explore an interruptible rate class as part of its preferred rate design or as a mitigation solution. Impacted parties and the AESO did not agree that a locational signal was required for an interruptible tariff. The impacted parties also expressed concerns over their ability to propose an interruptible tariff to the AUC given the lack of data and information available from the AESO and the lack of resources available to impacted parties.

VI. Memorandum of Agreement (MOA)

The AESO is drafting an MOA designed around three mitigation options:

1. Transition Demand Opportunity Service (DOS) Rate
2. Bill credits
3. A combination of Transition (DOS) Rate and bill credits

Further description of each of these alternatives is provided below.

Transition Demand Opportunity Service (DOS) Rate

Transition (DOS) Rate will be one of the mitigation options provided in the MOA. Current design features, which are subject to change through the ongoing development of the MOA, include:

- Transition (DOS) Rate is a temporary variation of the DOS Rate:
 - The 20 per cent limit to the load factor on contracted DOS load will apply if the contracted DOS level reduces the estimated transmission bill increase to below 10 per cent;
 - Otherwise, the load factor on contracted DOS can exceed 20 per cent up to levels that reduce the estimated transmission bill increase to 10 per cent (based on 2019 usage); and
 - All other terms and conditions of the modernized standard DOS rate will apply.
- Transition (DOS) Rate will be available for five years and would come into effect when the new rate design becomes effective;
- Upon expiry, any party operating under the Transition (DOS) Rate provisions will be required to meet the provisions of the standard DOS Rate; and
- Parties can make adjustments to their DOS level until end of year three; after that a DOS business case will be required.

Bill credits

Bill credits will be one of the mitigation options put forward in the draft MOA. Current design features (subject to change through the ongoing development of the MOA) include:

- The AESO will apply bill credits to the DTS bill for a site, in the form of an energy charge credit;
- The calculation of the credit on energy charge is consistent for all sites; but the resulting credit will differ between sites based on mitigation value to reach a 10 per cent transmission bill impact in the first year the new rate design becomes effective, based on 2019 usage; and
- Credits will be available for five years, starting when new rate design takes effect, decreasing by 20 per cent each year.

A combination of Transition (DOS) Rate and bill credits

A combination of Transition (DOS) Rate and bill credits will be one of the mitigation options put forward in the draft MOA. This option may be used for sites that cannot achieve a 10 per cent transmission cost impact through Transition (DOS) Rate alone.

Eligibility

Parties with a transmission cost impact greater than or equal to a 10 per cent increase in their transmission bill, estimated based on 2019 usage, will be eligible to receive mitigation. A party that signs on to the MOA may not be eligible for mitigation if, following approval of the overall rate design, a party's transmission cost impact is estimated to fall below the 10 per cent threshold. Conversely, companies that did not participate in the development of the MOA may be eligible to receive mitigation if, following approval of the overall rate design their bill impact is estimated to be above the 10 per cent threshold.

VII. Next Steps

The AESO is in the process of drafting the MOA for iteration and review by the impacted parties participating in the targeted mitigation engagement. These parties will have the opportunity to provide any comments and proposed changes they may have to the AESO, after which they will make the decision to sign or not sign the MOA. Whether or not they sign the MOA, impacted parties will provide the AESO with a brief rationale for their decision. The full MOA and rationale statements will be included in the AESO's application to the AUC for approval of the preferred rate design.