



# NaturEner

April 23, 2009

Alberta Electric System Operator  
2550, 330 – 5 Avenue SW  
Calgary, Alberta T2P 0L4

Attention: Mr. Kris Aksomitis

Dear Sirs:

**Re: Request for Stakeholder Comments – AESO's *Alberta Intertie Restoration Initiative Discussion Paper (March 25, 2010) (the "Paper")***

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These stakeholder comments are being submitted jointly on behalf of NaturEner USA, LLC and NaturEner Energy Canada Inc. (together, "**NaturEner**"). NaturEner appreciates the opportunity to provide the AESO with input regarding the development of services to support restoration of intertie capacity and supports AESO's ongoing efforts to address this timely and important issue.

NaturEner is a global developer, owner and operator of renewable energy projects. In addition to development projects in Alberta and elsewhere, NaturEner is developing a proposed 309 MW wind farm located near Cut Bank, Montana. The output from this project is proposed to be delivered into Alberta over the Montana-Alberta Tie Line ("**MATL**"), a 345-kilometre transmission line that will directly interconnect the electricity markets of Alberta and the United States (Montana) for the first time. NaturEner has contracted for 300 MW of northbound (MT>AB) transmission scheduling rights on MATL.

MATL has obtained all material permits and licences required for construction and operation, including from the National Energy Board (Canada), Energy and Utilities Board (Alberta), Department of Energy (U.S.) and Department of Environmental Quality (Montana), as well as significant construction financing (approximately US\$161 million) pursuant to the U.S. Government's "stimulus package". According to public disclosures by Tonbridge Power Inc. (the parent company of Montana Alberta Tie Ltd., owner of MATL), construction on MATL has commenced and the line is expected to be operational next year. This timeline is relevant because it is possible that MATL will be operational before any initiatives discussed in the Paper are implemented (although we urge the AESO to act expeditiously in this regard).

At this time, NaturEner's comments are primarily focused on the complete absence of any discussion of MATL in the Paper. As discussed below, NaturEner is of the view that further consideration of MATL is required in this context in light of the fundamental principles of the *Alberta Electric Utilities Act* (the "**EUA**"), recent regulatory approvals and policy documents identifying the importance of additional interties.

As an additional comment, NaturEner believes that it is critical for the AESO to frame this discussion in the larger context of the ongoing discussion regarding the allocation of ATC.

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The number and heading reference below references the Comment Matrix released with the Paper. Additional comments are included in the Comment Matrix attached to this letter.

## 2.0 Intertie Restoration Policy

Before moving to the discussion regarding AESO's obligation to increase intertie capacity, NaturEner believes it is important first to determine what the realistic available transfer capability ("ATC") outcome is, given actual ATC. The Paper references recent import ATC limits of "600 MW or lower under normal operating conditions". In the BC Utilities Commission decision on *In the Matter of a Complaint by TransCanada Energy Ltd. (September 10, 2009)*, that Commission determined, based on evidence presented, that 480 MW was a reasonable limit for long-term firm point-to-point transmission capacity (BC>AB) "until such time as the AESO is able to accept additional energy from British Columbia".<sup>1</sup> In a recent industry panel, a senior executive of the AESO noted that ATC over the BC Intertie is "550 MW on a good day".

In the interest of having a transparent process and outcome, NaturEner requests that the AESO provide a more thorough analysis of the calculation (beyond what is written in OPP 304) and actual availability of ATC during the last twelve months as well as the nature of the specific restrictions on restoration above 715 MW and the means by which those restrictions can be alleviated. From that position, stakeholders will be in a better position to assess what actual ATC might be following implementation of intertie support products as well as a general timeline of when significant increases to ATC can be expected.

## 2.1 Obligation to Restore Capacity

NaturEner is strongly supportive of the AESO's efforts to develop services to increase intertie capacity in a timely manner. However, we urge the AESO to develop such services with reference to Alberta's intertie reality; specifically, that in approximately one year, Alberta is expected to have a third intertie in operation. Although the Transmission Regulation (2007) requires the AESO to "prepare a plan and make arrangements to restore each intertie that existed on August 12, 2004 to, or near to, its path rating", it does not require that all increases in ATC be exclusively allocated to those interties. Furthermore, as the development of intertie support products will not increase the ATC of existing interties to anywhere near their path ratings, NaturEner is of the view that this initiative should be viewed as an interim tool; however, not an initiative that satisfies the mandate to increase ATC for the interties generally.

NaturEner is concerned that the development of the Paper without any references to intertie capability generally portends an unfair advantage for incumbent interties. More specifically, if the proposed intertie support products are treated as a "non-wires solution", in an energy-only market with no "transmission rights", the benefits of such products must accrue to all interties in a fair and equitable manner. Any other result creates significant barriers to entry for new market participants and is wholly inconsistent with the FEOC principle enshrined in the EUA<sup>2</sup>; in

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<sup>1</sup> See page 45 of the Decision.

<sup>2</sup> One of the two overarching duties of the AESO is to promote a fair, efficient and openly competitive market for electricity ("**FEOC Principle**") (s. 16, EUA).





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particular, it offends the statutory duty of AESO to facilitate the operation of markets “in a manner that is fair and open and that gives all market participants wishing to participate in those markets a reasonable opportunity to do so”.<sup>3</sup>

On this point, it is worth noting that one of the stated purposes of the EUA is to provide for rules that espouse the FEOC Principle and in which neither the market nor the industry in Alberta is distorted by “unfair advantages of *government-owned participants* or any other participant”<sup>4</sup> [emphasis added]. To discuss restoration only in the context of the BC Intertie (owned by the Province of British Columbia) and the Saskatchewan Intertie (owned by the Province of Saskatchewan) while ignoring MATL (a merchant line, not funded by consumers), on its face reveals unfair advantages for incumbent government-owned participants which strikes against a purpose of the EUA. It is difficult to imagine that Alberta will be able to attract additional merchant or other interties (an objective of the Transmission Policy and the Electricity Policy Framework) when, despite being issued permits from federal and provincial tribunals in Canada (in the case of MATL, the National Energy Board and, pursuant to a delegation of authority under the *National Energy Board Act*, the Alberta Energy and Utilities Board), these interties would not be treated fairly vis-à-vis the BC and Saskatchewan interties.

Finally, as the AESO is charged with assessing the current and future needs of market participants and then planning the transmission system to meet those needs<sup>5</sup>, it is clear that the Paper would be an appropriate forum to include MATL in the discussion.

\* \* \* \* \*

If you have any questions or require additional information, please contact the undersigned at 403.705.0696.

Sincerely,

Juliane Kniebel-Huebner  
Director, Regulatory Affairs  
NaturEner Canada/NaturEner USA

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<sup>3</sup> EUA, s. 17(b).

<sup>4</sup> EUA, s. 5(c).

<sup>5</sup> EUA, s. 17(i).

## AESO Discussion Paper – Intertie Restoration Initiative Stakeholder Comment Matrix

Section	Subsection	Stakeholder Response
<b>2.0 Intertie Restoration Policy</b>	<b>2.1 Obligation to Restore Capacity</b>	See attached letter.
	<b>2.2 Cost Allocation</b> <ul style="list-style-type: none"> <li>a. Transmission Development Policy</li> <li>b. Import restoration cost allocation</li> <li>c. Export restoration cost allocation</li> <li>d. Variable cost flow through?</li> </ul>	<p>(a) The Transmission Development Policy clearly contemplates that load would bear the cost of services to increase intertie capacity.</p> <p>(b/c) NatureEner supports the AESO's characterization of the proposed intertie support product as akin to a "wires solution" and therefore an inappropriate cost to be charged to importers and exporters.</p> <p>(d) NatureEner does not support the characterization of variable costs as akin to intra-Alberta generator transmission losses. The AESO's 2010 Loss Factors analysis (November 6, 2009) illustrates that importers are already subject to AIES loss factors (in addition to line losses already being absorbed by importers for use of the interties).</p> <p>As a general comment, in order to provide meaningful comments on a variable cost proposal, the specifics of the product design need to be detailed, as does the nature of changes to the product that the AESO expects to flow from amendments to tariff service classes. If AESO determines that importers must be charged the</p>

		variable cost, and if the magnitude is significantly higher than costs associated with AESO tariffs for IOS, NatureEner would expect there to be an associated direct benefit to the importer providing the payment.
<b>3.3 Options to Increase Import ATC</b>	<b>3.3 Options</b> a. LSSI to be pursued b. ILRAS not an option at this time c. Service available for in market use as opposed to emergency use only? d. Others?	<p>(a) NatureEner is strongly supportive of any efforts that could have the effect of increasing ATC. If LSSI is the only product with the potential to increase ATC in the short term, NatureEner encourages the AESO to steadfastly pursue it. As previous similar efforts have failed, it is critical that the AESO work closely with industry to ensure that development and procurement will be successful.</p> <p>(c) The service must be available for in market use. Emergency only use of these products may not have the capability to enhance transfer capacity as much as needed. Furthermore, as the competition for intertie transfer capacity escalates, it is precisely market-driven events that instigate the necessity of intertie support products.</p> <p>(d) NatureEner encourages the AESO to consider whether allowing counterflows to clear prior to determination and allocation of ATC could have the effect of enhancing the import transfer capability of the interties.</p> <p>In connection with this, NatureEner believes that the AESO will have to upgrade its dispatching and market settlement technology systems to a level consistent with other systems within the Western interconnect. The limitations of AESO's operational technology systems are most evident when dealing with intertie only issues.</p>
	<b>3.4 Next Steps</b> a. Form working group	NatureEner believes the formal process involving amendment to, or creation of, necessary OPPs and rules must begin immediately with the objective of making LSSI available for use by the end of



		<p>2010 (which timing may require the use of expedited rule filings pursuant to s.20.6 of the EUA). Within this timeline, NatureEner is supportive of a working group process in that it is critical for AESO to develop a product that will be supported and procured. However, the working group process should be undertaken in parallel with the formal process referenced above.</p> <p>In addition, as the Paper identifies which OPP's and other items will be the subject of consultation, NatureEner would like to point out that the OPP for MATL has not yet been released by AESO. The MATL OPP must be developed in a manner consistent with the amendments to OPP 304 that flow from this process.</p>
<b>4.3 Options to Increase Export ATC</b>	<b>4.3 Options</b> <ol style="list-style-type: none"> <li>GRAS to increase export limit to 935 MW</li> <li>No GRAS to increase SOK flow limit</li> <li>Integrate wind forecast into export ATC limit</li> <li>Service available for in market use?</li> <li>Others?</li> </ol>	<p>(c) Southern Alberta wind forecast information should be included into the export ATC limit, although NatureEner does not have the necessary data to suggest an appropriate level/percentage. As AESO gains more experience working with forecast information, a higher percentage of expected output could be included.</p> <p>(e) NatureEner also encourages the AESO to consider whether allowing counterflows to clear prior to determination and allocation of the ATC could have the effect of enhancing the export transfer capability of the interties.</p>
	<b>4.4 Next Steps</b> <ol style="list-style-type: none"> <li>Form Working Group</li> </ol>	<p>See comments in 3.4 above.</p>
<b>5.0 Conclusions and Next Steps</b>	<b>5.0 Conclusions and Next Steps</b> <ol style="list-style-type: none"> <li>Form Independent Working Group</li> <li>Should variable costs of services be charged to users?</li> </ol>	<p>(a) As the discussion of import/export limits is inextricably linked to other significant issues including ATC allocation, import/export tariff changes and commercial operation of MATL, the AESO should provide stakeholders with a comprehensive timeline and steps analysis addressing all of these issues (including clarity on the exact operational and rule components at issue). Working groups, adhering to that timeline, can be of value within the overall</p>

		<p>process in ensuring that necessary stakeholders have input into the development of the required rules, procedures and documents. However, as the increase of intertie capacity is already a serious concern, these issues need to be escalated immediately with all necessary resources and focus allocated to resolution.</p> <p>(b) As noted above in 3.2(d), the details need to be better understood to determine whether there is a reasonable basis on which importers could bear some of the expense aspects of the products.</p>