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September 5, 2018

Alberta Utilities Commission

Eau Claire Tower

1400, 600 Third Avenue S.W.

Calgary, Alberta T2P 0G5

Attn: Jay Halls, Lead Application Officer

Dear Sirs:

Re: Alberta Electric System Operator ("AESO") 2018 ISO Tariff Application ("Application") Alberta Utilities Commission ("Commission") Proceeding 22942

CanSIA Response to Submissions of the AESO dated August 29, 2018 concerning CanSIA's submission of August 21, 2018 regarding the AESO's proposed "clarifications" of currently approved rates and terms and conditions of service, and business practices of the AESO in relation to distribution connected generation

In the submission dated August 29, 2018 the AESO provided a restatement of the background for ID 2018-019T but failed to provide significant reasons to address the urgency of 2018-019T or why the it cannot be held in abeyance until there is proper review of its impacts in view of the public interest by the Commission. At the same time a subset of participants – particularly distributed generation projects currently under development - will be needlessly harmed by the potential economic impact and uncertainty because of hasty implementation of ID 2018-019T.

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CanSIA, Fortis, and Enmax as well as a significant number of interested parties representing existing and future potential distribution-connected generation have raised important, substantive and material concerns regarding the proposed "clarifications" that have been raised by the AESO concerning a new, and untested approach it's proposing for the first time in its Amended Application dated August 17, 2018 (22942- X0163) and in its information document ID 2018-019T (22942 X 0201) filed August 30, 2018.

Distributed Generation (DG) located downstream of a Point of Delivery (POD) provides benefits to the Alberta electric system in a number of ways:

1. It reduces losses because the generation is typically located nearby the load it serves;
2. It can reduce overall demands on the transmission system and the corresponding Distribution Facility Owner (DFO)'s transmission charges by lowering the amount of demand at the POD from distribution-connected loads (sometimes referred to as totalized or net energy methods);
3. It provides a method to de-centralize and diversify generation and transition from large thermal based generation to more locally based non-emitting and renewable energy sources such as solar, wind, geothermal, waste process heat, flared natural gas and stranded natural gas;
4. It is consistent with the overall policy behind the government's *Transmission Regulation*[1] which specifically seeks to incent generation locating near load. Location credits are a recognized part of the current electric industry structure. It is also consistent with Alberta's legislated target in the *Renewable Electricity Act* [2]for 30% of the province's electricity production to come from renewable energy sources by 2030;
5. It is also consistent with the earlier government's policy to create incentives for DG to locate where it can make use of flare gas that would otherwise be wasted.

[1] AR 86/2007.
[2] S.A., 2016, C R -16.5, section 2.

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By recognizing the benefits that DG creates, the AUC has for years approved credits for DG that reflect the reduction of POD charges to a DFO.

Such credits have been in place and operating for many years. They have always been understood to have been in the public interest, lawful and approved by the AUC (and its predecessor the AEUB). Fortis provides these credits under Option M, ATCO under Electric Rate 32and Enmax under Rate D 600.

The AESO now purports to change the existing approved rates and terms and conditions of service relating to DG credits through an "Information Document" for reasons which are not at all clear, have no apparent robust analytical support, have been created in the absence of appropriate consultation with potentially affected parties and in the absence of an appropriate level of consideration for the potential impacts on existing DG's, future DG projects, and rate impacts on all parties such as the DFO's, load customers and generation project proponents.

The AESO's stated justification for this suggestion is:

> *The AESO has determined that additional clarity should be provided in regards to the **appropriate contract capacity for Rate STS and Rate DTS for a distribution facility owner** ("DFO") at a substation, **in light of an increase in distribution-connected generation**, and the increasing number of system access service requests ("SASRs") being received by the AESO from DFOs requesting system access service under Rate STS.*

And

> *In the AESO's view, there have b**een inaccurate assessments of contract capacity and metering levels for system access service under Rate DTS and Rate STS at substations due to the totalizing of system access service under Rate DTS and Rate STS** at the 138 kV bus level or the high side of the transformer, instead of at the feeder level.*[3]

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[3] 22942 X0194, at pages 2 and 3.

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When the AESO suggests "additional clarity" is needed regarding appropriate contract capacity for STS and DTS rates charged to DFO's it is really saying it wants **to make a change to the rate**, its application, and the manner in which it charges its customers.

In terms of the AESO's suggestion that there have been inaccurate assessments of contract capacity in the past CanSIA's observes that the AESO has been responsible for planning the transmission system for many years and has commissioned a number of cost of service studies in the past and relied on them in applying for transmission tariffs. Importantly, the structure of these tariffs has remained unchanged over the past decade.

It is difficult to understand why now, after so many years and many transmission tariff applications that the AESO believes there have been inaccurate assessments of contract capacity in the past. It is also difficult to understand why the AESO now suggests there may be cross subsidies between distribution- and transmission-connected customers that need to be urgently addressed without consultation, presumably because of the alleged inaccurate assessments of contract capacity.

As far as CanSIA is aware, none of the past transmission tariff applications that have been made by the AESO and considered by the Commission has resulted in the AUC approving rates that result in unjust or unreasonable cross subsidies between generation providers. Yet that is what the AESO alludes to as the reason that it needs to change its rates and provide "clarity".

Simply put, just and reasonable rates approved by the Commission in the past do not overnight become unjust and unreasonable by virtue of the AESO creating an Information Document.

Indeed, whether a cross-subsidy exists or not remains to be seen. Even assuming a cross-subsidy were to exist, it is by no means certain that it would be unreasonable or otherwise considered unjust in the light of an appropriate balancing of rate design criteria (as determined by the Commission with the benefit of a fully developed record), or under applicable government policy such as the incentives intended to see renewable generation take on greater prominence in Alberta, or to locate generation near load.

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In any case, Enmax, Fortis, and many other interested parties think the AESO's proposed changes to its rates and the way it proposes to administer them are of significant concern, with the real and expected impact to customers resulting in harm to new and existing DG participants, DFO's and load customers.

CanSIA agrees, and observes that a change to existing approved rates, terms and conditions for setting contract capacity and a departure from totalization at the POD would have been better presented to industry in the context of a clear and direct request to change existing rates and terms and conditions of service. Not an Information Document.

In CanSIA's submission, such unilateral and significant changes require full understanding and an ability to respond in a meaningful and fully considered manner.

One approach to achieving this would be to have the AESO maintain the existing approach it has taken for years, continue to totalize demand at the PODs and withdraw its proposal to implement the Information Document changes until such time as the AESO can fully and effectively consult with parties that are directly affected and harmed by such proposed changes.

This could be accomplished in the context of the current 12 CP tariff consultation process that was carved out of the current proceeding. As the Commission is aware, a number of concerns arose regarding the AESO's proposed 12 CP methodology. After consideration of parties' submissions the AESO advised the AUC that the 12 CP method required further consultation over a longer time frame to determine whether it should be continued, modified or replaced[4], and requested that the issue be carved out of the present proceeding. The AUC approved this request in June of this year.

If the proposed rate changes in the AESO's Information Document were carved out of this proceeding, the AESO could include them in the ongoing 12 CP consultation, and the results of that consultation could presumably come forward in the AESO's next tariff application after due consultation with affected parties.

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[4] 22942 X0133, AESO letter of May 15, 2018 at para. 9., approved by the AUC in ruling 22942 X0156, June 29, 2018

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Alternatively, if the AESO is not able to consult with directly and adversely affected parties then CanSIA submits the appropriate process would require full vetting in a hearing process.

Such a process would require the AESO to provide interested parties with fundamental rate impact analysis and cost of service information, full explanation of the AESO's factual basis for alleging there have been inaccurate contract capacity determinations in the past, and the level and magnitude of the alleged cross subsidies that give rise to the AESO's stated concerns leading to its Information Document. This is the minimum required to allow interested parties what the AESO's proposal is based on. It is also the minimum required for the AESO to establish they are just, reasonable and warranted.

Fair process needs to be afforded to those who are directly affected, so that they may fairly understand the AESO's case for implementing such significant and material changes to the way it implements the associated STS and DTS tariffs that are directly implicated in the current DG credits approved by the AUC.

Only after parties are afforded an opportunity to ask information requests and test the AESO's alleged rationale for the proposed changes will directly affected parties have a reasonable basis to know and respond with such evidence as their interests fairly require. Based on the comments from interested parties to date, this could well include evidence from DG participants, rate design experts from the DFO's, load customers and others.

The AESO's proposal to fundamentally change the world in which DG participants live, and have been living since the early 2000's when DG credits were approved and found to be in the public interest, is a significant and fundamental change to the existing rates that distribution-connected customers receive service under, and a change that will impact project economics for new DG in the future.

The AESO should also keep in mind that most if not all existing DG in the province was developed under the industry structure that provided for DG credits.

Market participants in Alberta's electric industry are entitled to be fairly treated under the tariffs that are approved by the AUC at both the transmission and distribution levels.

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Tariff simplicity, stability and predictability of rates and revenue are well known and accepted rate design criteria. Rates that are practical, simple, convenient, understandable, and acceptable in a commercially reasonable sense are appropriate goals. They foster a competitive market for generation in which all parties are treated fairly and understand the rules they are expected to work under.

The AESO's proposal to change its rates and the approach to DG credits by way of an Information Document is at odds with the long standing and approved rates that have operated for years in Alberta. It is also at odds with the rate design criteria noted above. It should not be approved without the benefit of a full consultation process, or should that not be possible without the benefit of an appropriately constituted application putting forth a "new" of "clarified" rate proposal with supporting evidence from the AESO which can then be fully scrutinized in a hearing process.

Best regards,

Patrick Bateman

Patrick Bateman

Director of Policy & Market Development

Canadian Solar Industries Association (CanSIA)

Cc: Lewis Manning, Lawson Lundell LLP