

Exploring market concerns and tariff issues related to self-supply and export reform:

Independent Submission of R. Cowburnⁱ

1 Avoiding a Death Spiral

“Making legislative changes on this issue does not address the underlying issues at play here – notably the high costs of wires in the Province. While some may argue that the proposed hybrid option may have adverse impacts for ratepayers by leading to the so-called utility “death spiral,” ^{NOTE} it is important to realize that the economic signals to self-supply for industry are already strong. A long-term view of future electricity and fuel (gas) prices is causing many to re-evaluate energy supply options. Specifically, low natural gas prices and more efficient turbines mean that the cost of self-supplying electricity is comparable, and in many cases favorable when compared to receiving electricity from the grid.”

^{NOTE} “Death Spiral” - When a utility loses customer revenue from self-generation, it causes the utility to raise rates for other customers to preserve its revenue base. Higher rates, in turn, incent more customers to self-generate, creating a "death spiral" of grid defection.”

Heartland Generation has boldly spoken the truth of Alberta’s difficult situation.

When from 2000 to 2005 the AESO tariff charged both generators and load for transmission access, all parties shared a desire to see lower transmission costs. With the 2003 Transmission Development Policy, this symmetry was broken, and generators were in effect incented to seek as much transmission expansion as possible – with no responsibility to pay for it.

And here we are, with enough bulk transmission capacity to last for the next twenty years. In 2009, when the government of Alberta took over Critical Transmission Infrastructure approvals, load was forecast to grow by 6,678 MW over the next 20 years. Now the forecast is 2,187 MW of growth over the next 20 years.ⁱⁱ Oops.

But even though load is growing slowly, 9,078 MW of new generation is forecast to be required in the next twenty years. If in the extreme scenario all of this new gas generation was built behind the fence to avoid transmission charges, the load remaining to pay the bill for transmission might drop by 175% and rates might increase by 175%.

The problem is not with generation locating behind a customer’s fence. The problem is with how locating behind a customer’s fence affects that customer’s bill for transmission service.

The game now is transmission cost avoidance, and unfortunately the past quarter century has inadvertently opened up a broad range of now deeply embedded cost escape routes, which their beneficiaries will fight fiercely to protect. It is a difficult situation indeed.

2 Impact of unlimited self-supply and export on the energy-only market

Capital Power's citation raises two distinct market issues: physical supply and price discovery.

As to **physical supply** issues, the Alberta electric system operator, the AESO would be expected to inform the industry if 'must offer – must comply' exemptions were putting system reliability at risk, and to propose appropriate action. This does not (yet) appear to be the case.

The greatest impacts on **price discovery** will occur when supply is tight and prices escalate to recover the 'missing money'. Conversely, with increasing volumes of non-dispatchable renewables, who generally offer into the pool at \$0.00 / MWh, Alberta can expect to see more hours in which supply at \$0.00 / MWh exceeds demand, and some generators must reduce output.

The ADOE and AESO are currently reviewing and consulting on these interrelated issues, including market power mitigation, the price cap, price floor, and shortage pricing, and will in due course will provide a broader and deeper view of the issues.

While these are indeed concerns, addressing them would not address the death spiral concern, or address the self-supply conundrum. The issue is transmission tariff cost avoidance through self-supply -- and the solution lies in closing the tariff loopholes.

3 Self-Supply - Tariff Issues and Options

3.a Unlimited Self-supply and Export – Winners, Losers , and Grandfathering

Unfortunately this is a zero-sum game – someone has to pay for Alberta’s transmission facilities. In hindsight, mistakes may have been made – but they were made under public policies put in place by democratically elected governments. ‘We the people’ made these decisions, and we all should share in their cost consequences.

It is concerning but expected that some 25 generator representatives participated in the first round of comments, while mass-market customers have no comparably broad representation. The parties at greatest risk have the least voice. As Heartland Generation honestly stated:

“Any approach to self-supply must be tempered and balanced as residential customers would be the most at risk of any deleterious impacts of the “death spiral” because opportunities to self-supply are more accessible to industrial consumers.”

Those benefitting from the current loopholes assert that they have a right to retain these benefits forever, because past investments were based on those loopholes.

And indeed, ‘grandfathering’ seems like a simple solution. No existing customers win or lose more than they are at present; only future customers who have no voice are affected! But as Professor Bankes has observed:

“Grandparenting is inherently discriminatory; it should be up to the proponent of grandparenting in each and every case to demonstrate...why that discrimination is justified... Any preference for grandparenting in this dynamic environment will rapidly result in a patchwork tariff that is anything but consistent and non-discriminatory.”ⁱⁱⁱ

In the mountaineering community, where high-risk adventures often go wrong, there is a saying “If stupidity got us into this mess, why can’t it get us out ?”

We got into this mess quite innocently. “We’ll just make this one minor exception to the rules, just to deal with this one unusual situation... “

And now those minor exceptions have become a major cottage industry.

Once upon a time the AESO claimed that no one would actually try to avoid the monthly system peak hour to avoid bulk system charges. Now there are businesses advising customers how to avoid the peak hour, and hundreds of megawatts of load are proudly paying nothing for the assets they use every other hour of the month.

Unlimited grandfathering is neither just nor fair nor reasonable. In extreme cases, a phase-in may be warranted; but as soon as possible, everyone should be on a level playing field with their peers, governed by the same rules and rates.

So how do we get there? What are the options – and the structural barriers blocking those options?

3.b Potential impacts of changing existing tariff structures to eliminate net billing

The three most problematic transmission tariff loopholes are [1] net billing for transmission-connected generation, [2] transmission credits for distribution-connected generation and [3] the AESO's 12CP bulk transmission tariff design.

As several submissions indicate, the Industrial System Designation (ISD) and microgeneration merit further review, which is beyond the scope of this submission.

First let us recall how we got into this mess.

Alberta is unique in having a large industrial sector using some 60% of the province's electric energy. Those industrial loads have to locate where their related resources are – and historically, their need for electricity was supplied by coal-fired units, who were located where their coal resources were. This led to an unusually high cost transmission system spread out across the province, whose costs are very unevenly distributed among the various transmission facility owners.

From 1982 to 1995, both transmission and generation costs were averaged across the entire province. As a result, urban customers subsidized rural customers, and the largely urban residential / commercial customers subsidized large, remote industrial customers – and continue to do so to this day.

By preserving transmission cost averaging into the new world of generation competition, Alberta blocked the way to locational price signals in the new world. Even though location is the primary driver of transmission costs, it cannot be used in rate design or to incent generators to locate efficiently.^{iv} The implementation of cost-saving 'non-wires solutions' was also blocked.^v

In the rates world, Alberta has worked itself into the convenient fantasy that the volume of customer load is what drives costs – and focused the industry's resources on rates designed to reduce transmission costs by reducing peak load, with little foundation in current physical or economic reality (although prior to recent major transmission expansion, there was a potential for transmission cost reduction).

Fortunately the Commission has taken note of this situation:^{vi}

“763. The Commission is not persuaded by the evidence that there is a one-to-one offset between energy dispatched by DCG and load served by the same distribution substation.”^{vii}

And similarly in the Alberta Electric Distribution System-Connected Generation Inquiry,

“495 - The AUC heard that in Alberta there will be few if any benefits associated with the curtailment of transmission expansion. The backbone transmission system in Alberta has already been built to accommodate growth for many years to come. The roll-out of DCG does not eliminate the costs already incurred and therefore does not reduce rates paid by customers for the transmission system.”

All three of the identified tariff loopholes were based on this now outmoded assumption that reducing peak loads reduces transmission facility costs. All three loopholes should be replaced by a fair, fact-based rate design.

3.b.1 Eliminating Net Billing for Transmission-Connected Generation

The Commission has ruled in Decision 22942-D02-2019 that this net billing practice be discontinued.

The ultimate destination is clear. As the EUA 5(c) requires and several parties have requested, Alberta should have “an efficient electricity market based on fair and open competition... in which neither the market nor the structure of the Alberta electric industry is distorted by unfair advantages...”

Having found that “it is reasonable for the AESO to propose a transition period for the implementation of its adjusted metering practice”, the length and steps in this transition process should be clearly defined.

3.b.2 Eliminating Transmission Credits for Distribution-Connected Generation

The same reasoning applies to the amounts paid to distribution-connected generation.

“787. The Commission observes that there is evidence on the record of this proceeding on the cross subsidy created by DCG credits and the resulting transfer of transmission costs to load customers without a corresponding reduction in the actual cost of the transmission grid, requiring recovery in the ISO tariff. Nevertheless, the Commission agrees with parties that the continuation of DCG credits is a distribution tariff matter.”

Synchronizing the phase-out of transmission and distribution connected generator credits would be fair and reasonable. Neither type of connection should be advantaged relative to the other.

Some generators have argued that their investments were in part based on the expected continuation of these transmission tariff subsidies.

One of the strengths of Alberta’s market structure is that it has consistently focused on maintaining fair competition between generators, primarily through the energy-only market. That is what an investor should be considering in this market.

Transmission tariffs can and have changed significantly over the years, and when they do they should change for all – past, present and future customers. Generators receive all the benefits of an unconstrained transmission system, at great customer expense. That should be enough.

3.b.3 AESO’s 12 CP Bulk Transmission Methodology

The 12 CP methodology is also based on the assumption that peak demand reductions translate into transmission facility cost reductions.

A deeper reflection on transmission tariff cost causation would be in order.

3.b.4 Enabling Unlimited Self-Supply and Export

The self-supply issue was born from a dichotomy in the legislation.

If electric energy is produced and consumed on property, it is exempt from the EUA. If that energy is produced one meter beyond the property boundary, it is subject to the EUA.

Fair enough – then that on-property electric energy also does not exist as far as the transmission tariff is concerned. Customers should be billed on a ‘gross’ basis for transmission system usage, irrespective of whether there is on-site generation or not, and irrespective of whether that on-site generation is less than or greater than the on-site load.

By setting their contractual DTS and STS levels to match their individual operational realities, customers can determine what impact gross billing would have on their transmission charges.

For example, it is often stated that on-site generation allows load customers to reduce their use of the transmission system. Very good, then, reduce your DTS to whatever level you wish, and govern yourself accordingly.

If on-site generation capacity equals on-site load, and you can instantly trip off the load when generation trips, then you can presumably live with a DTS capacity of zero, and only pay the **standard interconnection charge** on your gross load (about which more shortly).

If however like most customers you cannot trip load instantly when generation trips, and you need the transmission system’s support to implement an orderly shut down or continue operations – then you should set your DTS capacity accordingly.

The same approach could apply to the on-site generation’s STS capacity setting.

- If the generator will always trip when the load trips, and **no** electric energy will flow onto the transmission system, then an STS capacity of zero would presumably be acceptable.
- If electric energy **will flow** onto the transmission system when the load trips, then that is where the STS capacity (and substation fraction) should be set.

This approach appears to enable Option 3, “Unlimited Self-Supply and Export”.

The pool operational issues noted above (MOMC, hourly pool price submissions) can be dealt with the AESO under its legislative mandate. The transmission cost avoidance loopholes would have been closed.

Let competition reign.

3.c Other Tariff-Based Solutions

It is easy to agree on the principal that the party that causes a cost should pay that cost.

But given that the current transmission system was built over the past half century for a variety of reasons, what current customer should pay for those long past decisions – and why?

No one tries to unscramble this egg. In practice, ‘cost causation’ must mean ‘current users pay’ – no matter what twisted history caused the current system’s construction.

3.c.1 Excessive Focus on Peak Demand

But transmission system costs are virtually all fixed and volume-independent within each asset’s capacity, so there is no clear and unambiguous link between transmission costs and transmission system usage.

The electric industry has dealt with this problem by adopting methods that appear objective and scientific, but which have little foundation in physical fact.

For many years, an unrealistically simplified view of transmission planning has dominated discussions of cost causation. Since peak load scenarios are used as a base in transmission planning studies, it is assumed that peak load is the primary driver of system expansion.

Open-minded review of any Need Identification Document will reveal that peak load alone is seldom the main factor determining the need for transmission system expansion. Generator dispatch and transmission outages are far more important drivers – but it would be difficult to use these drivers for cost allocation, for they have no connection to billing determinants.

Accordingly, peak load has been used for transmission tariff development. There are endless debates as to exactly what form of peak load would be most appropriate in capturing cost causation. These debates have no end for the simple reason that they cannot be resolved through analysis or reason. Any transmission cost allocation method is fundamentally a matter requiring the regulator’s informed and balanced judgement.

3.c.2 'Standard Interconnection Charge' Based on System Services & Public Policy

What objective factors can be considered in transmission tariff development?

A widely circulated EPRI report highlights

“the services and benefits of grid connectivity to consumers with DCG, including reliability, start-up power, voltage quality, efficiency, and the facilitation of energy market transactions “^{viii}

Even if net energy use over time is zero, these transmission system services have considerable value to their users, who would often be faced with significant expenses were they to isolate themselves from the system.

The current DTS rate does not contain any such charge component; it is focused on conductor and structures, not on the services those assets provide. This is one factor that merits consideration as the foundation for a 'standard interconnection charge' payable by all who use the transmission system, and the AESO's submission states it

“intends to re-visit the existing ISO tariff design to ensure that the value provided to facilities by being physically-connected to the AIES, such as voltage and frequency stability, and access to a transfer network, are properly reflected.”

Another factor to consider is the different causation of Critical Transmission Infrastructure projects. These projects were identified and their voltage determined as a matter of public policy; their costs should arguably be recovered from all transmission system users as a component of a non-bypassable 'standard interconnection charge'.^{ix}

These transmission tariff methods all require judgement to implement – as do the current methods. There are a number of calculations such as zero system and minimum intercept which can provide some guidance, but the Commission's balanced and informed judgement is the foundation for a just and fair transmission tariff.

3.d Conclusion: Tariff Changes are Needed to Enable Unlimited Self-Supply

As the questions indicate, self-supply poses two types of issues: market issues and transmission tariff issues.

The market issues appear to be within the AESO's legislative scope, and are currently being addressed through consultations.

As transmission costs have escalated, loopholes to avoid transmission costs have grown increasingly attractive, and ever more widely exploited. Weaning parties from this cost avoidance will be challenging. An open reconsideration of transmission tariff development would be helpful in providing a foundation for fair industry advancement, and would support a policy of unlimited self-supply.

ANALYSIS & CITATIONS

For convenience of reference

i Rick Cowburn – Qualifications & Experience

Since 1983, Rick Cowburn has served in a range of roles in Alberta's electric and water utilities. He was a member of the technical team that in 1994 designed Alberta's current energy-only market structure, led rates and regulatory applications to Edmonton City Council, the Commission and its predecessors, and was variously responsible for metering, settlement and wholesale billing functions at Edmonton Power and its successors, retiring as Vice President of Tariff Services in 2007. Since that time he has provided independent expert consulting services to a wide range of clients, from the AESO to REAs to industrial customers.

This submission is an entirely independent work product submitted to support the broad public interest, with gratitude to the industry in which he has spent his entire working life.

ii Load & Generation Forecast Analysis – 2009 & 2019

The 2009 AESO forecast of AIES Winter Peak Demand in 2011/12 was 8,892 MW; for 2029/30, 15,670 MW, an increase of 6,678 MW (76%).

The 2019 Long Term Outlook forecast of Total AIL Peak Load in 2019 is 12,087 MW, and in 2039 14,274, an increase of 2,187 MW or 18%.

The 2019 Long Term Outlook forecasts generation additions ranging from 8,007 MW to 10,148 MW, depending on whether the reserve margin is 15% or 30%. Using a midpoint average generation additions might be 9,078 MW.

To consider an extreme (and highly unrealistic) scenario to obtain a sense of the potential magnitude of the problem, imagine that the 9,078 MW of generation was located on property and shielded 9,078 MW of load from transmission tariff charges.

Of the 14,274 MW of load which should pay transmission charges, if 9,078 were exempted from those charges then there would be 5,197 MW of load remaining to pay transmission charges.

In this simplistic analysis, rates to the remaining customers would be at a level of $[14,274 / 5,197] = 275\%$ compared to being spread over 14,274 MW of load, or 175% greater than otherwise.

iii Concerns with Practice of Grandparenting

“First, it is not true to say that any change of practice necessarily results in prior parties receiving different treatment than future entities. For example, I cannot see why the AESO could not apply gross billing on a go-forward basis at all PODs and for all DCG.

Second, the AUC speaks of a transition for implementation but there is no transition here to bring grandparented facilities into gross billing; there is simply a line, a line that will remain fuzzy for some months (and will undoubtedly cause a race to obtain permits and to commence construction) until the effective date of the AESO 2018 tariff, but still, a line.

Third, the Commission finds it to be “reasonable” to grandparent existing DCGs and to allow them to operate under the regime that applied when they brought their projects forward. But this merely an assertion. There is no convincing explanation as to why this is “reasonable”. The record suggests that net metering has the result that existing DCGs have not been paying an appropriate share of the costs of (and the benefits associated with) a transmission connection – in other words, other parties are cross subsidizing DCGs. While it would be retrospective rate making to seek to rectify that situation historically, it is not obvious to me that the AESO or the AUC should be perpetuating this cross subsidization – apparently in perpetuity. There is no evidence that a change to net metering would cause existing assets to be stranded or the degree to which they would be rendered less profitable, and, as with the earlier discussion of power factor deficiency, there is no assessment here of the AESO's grandparenting proposal against the legal duty not to discriminate.

Fourth, the AUC simply does not address the difficulties associated with implementing the grandparenting proposal; a job that will surely become more difficult and seem increasingly arbitrary over time.

And finally, the first sentence sends entirely the wrong message because it suggests that grandparenting is now the rule (or at least the presumption) and not the exception. That cannot be the case. Grandparenting is inherently discriminatory; it should be up to the proponent of grandparenting in each and every case to demonstrate (subject to the reverse onus rules respecting ISO Rules – but not the ISO tariff as here) why that discrimination is justified. Nor is the sentence consistent with the oft-stated principle of level-playing fields and treating all generation consistently. Given the disruption that the industry expects to see over the coming decades with the increased penetration of distributed generation, we can expect to see additional changes to the tariff – both interpretive changes and express amendments. Any preference for grandparenting in this dynamic environment will rapidly result in a patchwork tariff that is anything but consistent and non-discriminatory." *[paragraph breaks added]*

Nigel Bankes, <https://ablawg.ca/2019/12/02/further-thoughts-on-the-law-and-practice-of-grandparenting/>

iv **MSA Observations re Transmission Policy and Costs**

"42. Regarding the need for investment in transmission lines, it is policy in Alberta to build a transmission system that is uncongested under normal operating conditions. This is in part to assure investors that if they build generation anywhere in the province they will not be 'constrained off' due to transmission congestion. This has two main effects. First, generation investors have little incentive to locate near consumers because the cost to them of being distant from consumers is muted. Second, transmission costs in Alberta are excessively high because the transmission network is over-built in order that it be uncongested under normal operating conditions. In a properly functioning electricity market, locational prices would—through the market—mitigate the first effect by rewarding generators located closer to consumers with higher delivered electricity prices.

43. Both line losses and investment in transmission lines would be reduced by locating generation capacity closer to consumers.

MSA submission, citing p Paragraphs 40 to 43 of the MSA's DSI Submission.

v **Bypassing the Prohibition Against Locational Transmission Tariffs**

"Under the Former EUA and prior to the 2004 Transmission Regulation coming into effect, a policy of paying generation locational credits was approved in Decision 2000-1. By way of example, the TA during this time obtained EUB approval of the Invitation to Bid on Credits ("IBOC") and Location Based Credit Standing Offer ("LBCSO") programs to provide incentives for generation to build closer to large load centers like Calgary, and to provide non-wires solutions to transmission wires issues in Alberta in the absence of a wires solution." ...

vi **DCG Does Not Have a One-to-One Substation Capacity Offset**

"Commission findings

763. The Commission is not persuaded by the evidence that there is a one-to-one offset between energy dispatched by DCG and load served by the same distribution substation. This finding primarily reflects two observations.

764. First, the Commission notes the evidence discussed in this proceeding indicates that the capacity of some DFO substations may be well in excess of requirements for load growth for the foreseeable future, which is contrary to the expectation that DCG would cause DFO's to limit the transmission capacity they would request in SASRs.

765. Second, much of the recent interest in DCG is in respect of renewable forms of generation for which the timing of generation peaks may not correspond to the timing of load peaks that drive transmission expansions.

766. The Commission recognizes that the belief that distribution-connected generation provides an offset to load growth and, thereby, avoids transmission expansion costs that would otherwise be required was central to the historical decision of the Commission's predecessor to find that credits for distribution connected generation should be provided by DFOs. However, the Commission considers that the decision on whether or not there should be DFO funded credits for distribution-connected generation is a separate matter. This is discussed in Section 7.3.7 below."

Decision 22942-D02-2019 (September 22, 2019) p.171

This is consistent with the Commission's observations in the Alberta Electric Distribution System-Connected Generation Inquiry:

§"495 - The AUC heard that in Alberta there will be few if any benefits associated with the curtailment of transmission expansion. **The backbone transmission system in Alberta has already been built to accommodate growth for many years to come. The roll-out of DCG does not eliminate the costs already incurred and therefore does not reduce rates paid by customers for the transmission system.** While there might be some local, lower voltage transmission costs that might be deferred, few participants drew the AUC's attention to those types of costs and certainly no one had any cost estimates of the deferred costs that might be realized. Parties recognized that the value of deferred capacity costs on the transmission system in Alberta would be minimal." *[Emphasis added]*

http://www.auc.ab.ca/regulatory_documents/Consultations/DistributionGenerationReport.pdf

vii **Recognition that Distribution Connected Generation Does not Create Cost Savings**

Commission findings

763. The Commission is not persuaded by the evidence that there is a one-to-one offset between energy dispatched by DCG and load served by the same distribution substation. This finding primarily reflects two observations.

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viii **Broader Recognition of Grid Services**

730. AltaLink supported the AESO's assessment in its rebuttal evidence⁸⁰² that demonstrated that grid services cannot be replaced by DCG. It submitted that the AESO's proposed changes to metering and contracting practices will result in fair recognition of the value of the grid services provided to load customers and DCG that neither DCG nor DFOs provide or are required to provide, including:

- load following;
- local backup power when DCG power is not available; and
- voltage and frequency support to load.

731. AltaLink referred to an extract from an Electric Power Research Institute (EPRI) report referenced in the AESO's rebuttal evidence that discussed the services and benefits of grid connectivity to consumers with DCG, including reliability, start-up power, voltage quality, efficiency, and the facilitation of energy market transactions. In addition, AltaLink submitted that the EPRI report highlights the fact that without grid connection, DCG would have to make significant investments in on-site control, storage, and redundant generation capabilities. Given this, AltaLink submitted that the benefits to DCG of connecting to the grid are substantial.

732. AltaLink explained that under the current ISO tariff most grid services such as reliability, start-up power, voltage quality efficiency, and energy transaction are not explicitly metered or charged. Instead, the only mechanism through which market participants can be charged for services obtained through connection to the grid is by way of a DTS or STS contract. AltaLink submitted that the current net-metering practice and DCG credits (discussed in Section 7.3.7 below) result in material cost shifting and cross subsidization, whereas, the AESO's adjusted gross metering practice would ensure that the

value of grid services is appropriately charged under tariff design and would also ensure that cross subsidization is reduced.

Decision 22942-D02-2019

^{ix} **Critical Transmission Infrastructure (CTI) and Transmission Cost Allocation**

“96. The UCA expressed concern that a number of major transmission projects anticipated to be constructed over the next several years are being developed for reasons that are different than the cost causation reflected in the AESO’s current Transmission Cost Causation Study.⁴⁹ As a result, the UCA submitted that the Transmission Cost Causation Study and the resulting tariffs based on that study’s classification need to be updated before these new major transmission projects have a material impact on customer bills.” ...

“98. In Reply, the UCA submitted that while the individual reasons for building new transmission facilities are not new, the UCA’s evidence is that there is likely to be a significant increase in the proportion of bulk transmission facilities built for reasons other than to provide reliable delivery to load customers at times of peak load and, as a result, there is a strong possibility that the classification of bulk transmission facilities will change to a more energy-intensive classification.” ...

“Commission Findings

103. The UCA clarified in Argument that it was not seeking a determination as to whether the classification of future bulk system additions is different than the classification of transmission capital costs determined from prior AESO tariff cost causation studies. The Commission understands that the UCA is seeking only to persuade the Commission of the urgency in updating the AESO’s rate design to reflect the different causation of a substantial component of future bulk transmission system capital additions.

104. The Commission has concerns, which are discussed in detail in section 6.3.1 of this Decision, that the timetable proposed by the UCA for future cost studies is not logistically feasible. The Commission accordingly directs that the classification of bulk system costs remain unchanged for this tariff. The Commission anticipates this issue will be reviewed in the future.”

AUC Decision 2010-606