Participant-Related Costs for DFOs (Substation Fraction) and DFO Cost Flow-Through Technical Session 2B on May 28, 2020

I. Purpose of this session

The purpose of this session was to:

- Continue to build a common understanding of the purpose and application of participant-related costs for DFOs (substation fraction formula) and DFO cost flow-through; and
- Group discussion to evaluate proposals for participant-related costs for DFOs and DFO cost flow-through and determine if alignment on a joint proposal can be made or if multiple proposals will move forward.

II. Session agenda

Time	Agenda Item	Presenter
8:00 – 8:15	Welcome, Introduction and Session Objectives	Stack'd / AESO
8:15 – 9:00	Where AESO is at • Statement of AESO's current thinking in response to the proposals • View of how the day will progress	AESO
9:00 – 10:15	Evaluative Discussion on Proposals	Moderated Discussion
10:15– 10:30	Break	
10:30 – 12:15	Evaluative Discussion on Proposals	Moderated Discussion
12:15 – 12:30	Session Close Out & Next Steps	Stack'd / AESO

III. Attendees

Company
Acestes Power ULC
Alberta Electric System Operator (AESO)
Alberta Energy
Alberta Utilities Commission (AUC)
AltaLink Management Ltd.
ATCO Electric Ltd.
BEAM

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Blake, Cassels & Graydon LLP
BluEarth Renewables Inc.
Canadian Solar
Candor Engineering Ltd.
Capstone Infrastructure Corporation
Carlotta Energy
CCA
Chymko Consulting Ltd.
City of Lethbridge
DCG Consortium
Denis Forest Consulting Inc.
DePal Consulting Limited
Elemental Energy Renewables Inc.
EPCOR
Evolugen (Brookfield Renewable Canada)
FortisAlberta Inc.
Green Cat Renewables Canada Corporation
Hatch Upside
Innogy Renewables Canada Inc (DCG Consortium member)
Industrial Power Consumers Association of Alberta (IPCAA)
Irricana Power Generation
Kalina Distributed Power
Lionstooth Energy Inc.
Longspur Developments
NaturEner Energy Canada Inc.
Nican International Consulting Ltd.
Peters Energy Solutions
PGSC
Power Advisory LLC
Power Grid Specialists Corp.
Siemens Energy
Signalta Resources Ltd.

Company
Solar Krafte Utilities Inc.
Solar Power Investment Cooperative of Edmonton
Solas Energy Consulting Inc.
Suncor Energy Inc.
TC Energy Corporation
TransAlta Corporation
UCA
URICA Asset Optimization
Wolf Midstream
Stack'd Consulting, Inc.

IV. Evaluative discussion summary

The AESO presented views on their current thinking and moderated an evaluative discussion with attendees for the remainder of the session. The AESO identified areas of concern where further study was needed.

Participants generally fell into two camps responding to AESO's emerging proposal:

1. Those that are somewhat supportive of the emerging proposal (approximately 51 per cent of attendees) and generally supported an 'incremental plus' approach; and
2. Those that are very unsupportive of the emerging proposal (approximately 26 per cent of attendees) who generally supported an 'incremental only' approach.

Stakeholders seemed to generally acknowledge how the emerging proposal addressed most of the pressing issues from the existing substation fraction methodology, notably the unconstrained future liabilities for distribution connected generation (DCG) and providing DCG customers with cost certainty at the final investment decision (FID) stage of its projects.

Many participants who were very unsupportive continue to feel that there is a lack of parity in the treatment of transmission connected generation (TCG) and DCG; where the AESO and some other stakeholders fail to see a disparity, suggesting instead that an 'incremental plus' approach is the actual path to parity. Others who are very unsupportive point to the historical transmission development planning guidelines as support for the argument that the emerging 'incremental plus' solution does not align with policy.

All participants acknowledged that this solution is being evaluated within the current context of the existing *Transmission Regulation* (T-Reg) and that the root of many of the issues being addressed may be part of bigger conversations that are outside of the scope of this engagement.

As a result of the two divided camps, it is highly unlikely that a single joint-report will be filed with the Alberta Utilities Commission (AUC) at the conclusion of this engagement. Some stakeholders suggested they would support a slowing down of the process to allow for continued engagement, a stark contrast to the position voiced by many at initial engagement sessions.

When discussing the AESO's emerging proposal with the intent to iterate, improve and answer outstanding questions, the following conclusions were reached:

1. Substation Fraction = 1 for DFOs

Participants were generally aligned with the concept that Substation Fraction = 1 for distribution facility owners (DFOs). There was some discussion on how to move participant-related costs that were triggered by a distributed-connected generator. The majority of participants felt that it was already dealt with through the way that incremental connection costs are charged to a distributed-connected generator. Further discussion was had around when a DCG was driving a transmission upgrade. It was generally agreed that if a DCG was driving an upgrade, they would be allocated the full cost of that upgrade.

2. Determining the $/MW Charge

Participants generally agreed that cost sharing should be relative to the benefit that is received for specific portions of the facility that are actually used. Beyond this high-level agreement in principle, there was little agreement to the specific costs that should be included or excluded as input to a $/MW charge. Many participants also felt that simplicity and cost certainty are important in determining the $/MW charge as well as the benefits and risks of having a single postage stamp rate versus offering rates that offer locational signals. The discussion also covered process considerations for the administration of the charge, with some DCG participants suggesting that regulatory time and effort should be spent to get to a single, agreed upon rate that is then simply applied, rather than opening and performing unique calculations on an investment by investment decision. In short, simplicity is incredibly important for the DCG community.

3. Determining the applicability of the DCG Charge

There was not broad agreement for the determination of the contribution being based on Rate STS. Some participants felt that the way STS is calculated does not reflect the DCG usage of the DFO substation but only at the feeder. Simplicity and cost certainty of calculations were very important factors for some participants while other participants viewed accuracy as most important factor. We did not reach broad consensus on a 'best' approach, but the AESO heard the various comments and will take the input back in to its ongoing iterations.

4. Determining the administration of the DCG Charge

Participants did not have time to thoroughly address the administration aspects of the DCG charge due to a time limitation. However, a brief discussion determined that most participants did not have a strong viewpoint relating to the administration aspects of the DCG charge with exception of a few DFOs. It was agreed upon that further conversations would take place with those organizations to come to a joint agreed upon solution.

5. Looking towards implementation

Most participants interest in the implementation was related to the extent to which the emerging proposal would be grandfathered in for existing outstanding construction contribution decisions (CCDs) and how that process would be administered. Some suggested that an interim relief from outstanding invoices, or those held in abeyance would be a prudent first step while the AESO continues to design and implement its emerging proposal. Some stakeholders also suggested getting to an agreeable outcome is more important than the speed by which that agreement is reached.