Bulk and Regional Tariff Design – Targeted Mitigation Engagement 1:1 Meetings hosted between March 29 and April 16, 2021

I. Meetings overview

As part of the AESO's targeted mitigation engagement, 1:1 meetings were held with those stakeholders ("impacted parties") that are estimated to experience a transmission cost impact of 10 per cent or more.

Each impacted party was engaged in a kick-off meeting with the AESO and Stack'd Consulting ("Stack'd"), and a subsequent 1:1 meeting with Stack'd. The purpose of the kick-off meeting was to introduce the AESO's proposed targeted mitigation engagement process. The purpose of the subsequent 1:1 meeting was for Stack'd to gain a better understanding of the implications of the tariff design on each stakeholder and explore preferred mitigation options.

II. Meetings highlights

Captured below are the highlights of the discussion on a topic-by-topic basis. All comments have been anonymized.

The key themes that arose related to the targeted mitigation process included:

- Concern that the schedule for this targeted engagement is rushed
- Questions about whether this is a negotiated settlement
- Questions about what happens if there is no agreement
- Questions about whether there is an option that can work for everyone

The key themes that arose related to the impact of the rate design included:

- Impacted parties still don't agree with the rate design that the AESO has chosen. Confused that the design dis-incents the behavior that is working to reduce congestion and shift to lower-cost hours.
- Impacted parties make these choices because of how impactful electricity is on their operations. These cost changes have a material impact on their ability to operate / keep the doors open.
- Impacted parties see themselves as good customers that are providing a service to the AESO. In their opinion, the flexibility their loads bring to the system is under-valued; and they will pay more under the AESO's preferred rate design.
    - They believe the signal that has been sent with the rate design is that all of their actions and behaviors are not valuable to the AESO.
- The switch of the costs from coincident peak ("CP") to an energy charge is the main concern in the rate design, both from reducing the benefits from avoiding CP and reducing their ability to avoid costs by pairing them with energy.
- The timing of this change is unfortunate given the pandemic. While rates won't go into effect for a number of years, they need to make investment decisions today based on the information that they have. There is a certain 'death by 1000 cuts' element to this.

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- Impacted parties want to pay their own way, but this rate design also makes them feel like their loads are not wanted. Doesn't feel like Alberta is trying to be competitive.

Based on context, the mitigation options most preferred included:

i. An interruptible rate class that values flexibility

ii. Changing / reducing the CP hours in the shoulder seasons

iii. Bill credits were rarely raised

iv. Hard code the CP rate is an option, but appreciate that the implications of this are not fully understood on rate design

v. Load retention rates had mixed interest, with some being concerned about the impact on trade agreements and competitive response in other jurisdictions.

vi. Duration needs to be long-term / semi-permanent (e.g. life of the asset) – but this is less preferred to a rate design that can be perpetually participated in

    - Any limit to duration is sending negative investment signals

Additional commentary

- Grid defection (i.e., going behind the fence) is unlikely for these loads based on load type, facility size requirements, and lack of appetite to invest significant capital– if costs go too high, facility closure is the likely outcome
- Without some regulatory stability, appetite for continued and reinvestment is low (and it is perceived there have been significant and constant changes occurring in the power sector).
- They are not rate designers, need to respond to what's being proposed

III. Detailed discussion notes

Topic 1: What's at stake?

Key highlights

1. Facility closure is the worst-case scenario. Job loss, and lack of re-investment are likely outcomes.
2. With the reduced CP, the value that customers receive by avoiding the CP is hugely decreased, which has implications on the operational viability of the customers who have developed the flexibility to manage their peaks.

Discussion

i. Commentary on impact to customers' business operations

- Power is a huge component of how they make their products
- Of all of their plants in different jurisdictions, their Alberta plant is the most expensive
- Fifteen to twenty per cent increase on top of their transmission costs comes straight out of margin, they can't pass that through to customers
- If this goes ahead, in three years, they will absolutely look at leaving the grid

- If prices need to go up, there needs to be an effective way that doesn't impact them in a way that they cannot recover from
- They don't have line of sight on carbon, but the cost is increasing too
- The cost increase in the new design is completely wiping out their profit margin
- They have not been given a clear reason for the tariff design
- Transmission costs have almost tripled in the last decade
- Even a mitigated impact of 10 per cent represents an unfavourable economic impact to their operations
- They are looking actively to disconnect from the grid, but it may not be an option because the investment cost is extremely high

ii. Commentary on the sunk cost

- They didn't need or want the reliability that was built, but it was built anyways
- They are being punished the most because they manage it the most
- They never asked for reliable supply, they asked for reasonable pricing; but the single largest cause of lost productivity is power supply

iii. Commentary on the cascade effect

- They are connected to all the other similar operations in the province as supply chains or synergistic operations – they are all very reliant on one another to create economies of scale
- If you take out one element, other companies are impacted
- They are paying for the mistakes of the AESO and the government in the form of sunk costs and yet don't see any direct benefits from the costs

Topic 2: What parts of the proposed rate design impact you the most?

Key highlights

1. Shifting from CP demand charge to an energy charge is the most impactful part of the rate design for these customers and is perceived by customers to mean that their efforts to increase efficiencies in grid use are not valued by the AESO.
2. With the reduced CP, the value that customers receive by avoiding the CP is hugely decreased, which has implications on the operational viability of the customers who have developed the flexibility to manage their peaks.

Discussion

i. Commentary on the shift from CP charge to energy charge

- The shift away from CP to energy is highly impactful
    - The increase in the energy component from $2 to $10 is large
- Ten years ago, they typically would not turn down for CP, they would run through it
- They feel that they have been a good partner, but the new structure is not designed to allow them to respond to a signal

- They are being penalized for making more product; ideally, they would come up with a system where they benefit for using more energy
- If the CP was in place to manage constraints on the system, that's not what the new tariff is designed to do
- They are sacrificing production to respond to high energy price and CP demand
    - They have invested millions in energy efficient cell technology so that they could use less energy for every ton produced
    - Being a high load factor, using energy as efficiently as possible, sacrificing production for the sake of the grid and not being seen as valuable by the AESO is very discouraging
- Putting the price on the energy any time of the day is very impactful
    - They have done everything to use as much energy in the nighttime rather than daytime
    - But now, the nighttime has become more expensive – there's nothing you can do with your behaviour other than consuming less energy and this takes away all flexibility
- They have made large investments and this shift to energy completely eliminates the benefits of those investments

ii. Commentary on the decreased benefit of avoiding CP

- Reducing the CP will have a negative impact because they would still be putting in the same effort, but for half the benefit
- There are no price signals that support the time value of energy or congestion, but they see it every morning
- Without an efficient price signal, they will respond by taking production out – there is an opportunity cost
- The five-year rolling history – the value that they would get from avoiding the CP is potentially 20 per cent of the value; this is a complete disincentive to manage peak and the flexibility that has been developed in these companies

Topic 3: Desired mitigation concepts to explore

Key highlights

1. Proposed options include establishing an interruptible rate class, implementing legacy rate treatment, and/or making other changes to the tariff design to include a more reasonable increase to the energy charge.
2. Any mitigation levers must consider not only the seven sites that are affected today, but whether the decisions made today will limit companies choosing to enter the Alberta market in the future.
3. Mitigation options cannot be temporary or short term as this would perpetuate the uncertainty that customers are already feeling.

Discussion

i. Commentary on an interruptible rate class

- Interruptible rates should be considered, with a process for rate eligibility

- Who would this rate be open to?
    - Perhaps a minimum impact threshold that you can apply to
    - Could easily create criteria that doesn't leave people behind that are similar to these seven sites, but are just under the threshold
- Interruptible rate class doesn't shut other customers out who aren't part of the group of seven
    - This is a fair outcome for others that are similar but didn't quite fit into the 10 per cent
- An interruptible rate class preserves peaks at times that matter the most and preserves the current CP demand
    - Could be used by all of the most impacted companies allowing them to operate at a productivity level that remains competitive
    - An interruptible rate class would make operations easier and improve productivity because it takes out some of the uncertainty of the current rate design

ii. Commentary on legacy[1] rates

- Proposal to keep their rates the way they are now; legacy rates must be permanent
- From their perspective, legacy rates only help the seven sites that are affected now
    - Perhaps a tiered system could be considered instead
- Want to avoid legacy rates because in that situation there are winners and losers – someone else would have to pick up the cost

iii. Commentary on changing the proposed rate design

- No increase at all would be ideal
- Want a reasonable increase – haven't seen any logic of how the increase from $2 to $10 actually came about
- Expanded or altered Load Shed Service for imports (LSSi) tool that would better reflect the value that their tool/load provides
- They shouldn't be paying more, they should actually pay less because they are giving up production and already paying millions in transmission costs
- Payment in Lieu of Notice (PILON) must be reduced
- Small changes to the tariff (i.e., reducing the shift to energy) would help high load factor customers
- Moving to the energy cost means there is a need to come up with something reasonable that allows customers to increase productivity
- Preferential treatment of certain customers may violate the free trade agreement

[1] The AESO will replace the term "grandfathered" with "legacy" on a go forward basis.

iv. Commentary on consideration of impacts on the future Alberta economy

- The new tariff design does not seem aligned with the Alberta economic strategy from the provincial government
- Legacy rates limit whether companies will enter the Alberta market

v. Commentary on the permanency of mitigation options

- Want a long-term outlook of the new tariff design to get a better idea of the duration
    - Need to understand how things change with this design over time
    - Time duration impacts the investments that customers can make because of the uncertainty of the rate design going forward
- Mitigation cannot be temporary or short term
- A permanent rate class/rate design would give certainty on power generation, where permanent means for the life of the facility
- Any time limit hinders any new investment for these seven sites in Alberta