



Date: July 26, 2024

Ref: 121197

Honourable Nathan Neudorf
Minister of Affordability and Utilities
Government of Alberta
Suite 319 - 10800 97 Avenue NW
Edmonton, Alberta T5K 2B6

Email: au.minister@gov.ab.ca

Dear Minister Neudorf,

I am writing in response to your July 3, 2024, letter to the Alberta Electric System Operator (AESO) on the technical design of the Restructured Energy Market (REM), and Alberta's transmission policy. I understand that, following from your direction, the AESO has communicated that interties will be one of the first major REM topics in the stakeholder engagement process. I further understand that these REM discussions will not include the topic of intertie restoration. As a result, the timing and effectiveness of the AESO's intertie restoration efforts remains unclear.

To date, and despite assurances from the AESO, there have been no substantial improvements to the commercial import capability from British Columbia (B.C.) to Alberta on the B.C.-Alberta Intertie (Intertie). The AESO's recent procurement of 160 megawatts of Fast Frequency Response services is unlikely to change this. The AESO has contracted for short term services, most of which will not come online until 2026. Further, the extent to which the procurement will improve the Intertie's import capability is uncertain. I understand prior procurements of similar services have not resulted in actual, durable improvements in import capability. At the same time, there continues to be a lack of clarity regarding Alberta's transmission policy as applied to its interties. Given this context, B.C. is becoming increasingly concerned that Intertie restoration efforts may have ceased to be a priority.

B.C. is also concerned that Alberta's market redesign choices could potentially result in additional adverse treatment of commercial activity on the Intertie. Alberta's REM needs to address reliability on the Alberta system without continued excessive uncompensated use of the Intertie. B.C. will continue to evaluate how to respond to the progress, or lack thereof, on Intertie restoration, as well as to any market redesign choices that may further harm B.C.'s interests.

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**Ministry of
Energy, Mines and
Low Carbon Innovation**

Office of the Minister

**Mailing Address:
PO Box 9060, Stn Prov Govt
Victoria, BC V8W 9E2**

**Telephone: 250 953-0900
Facsimile: 250 356-2965**

The Intertie is intended for the mutual benefit of both B.C. and Alberta. The bi-directional commercial flow of energy, resulting in efficient and reciprocal electricity trade, benefits electricity consumers and suppliers in both provinces. The choice to significantly derate the Intertie's commercial capacity from B.C. to Alberta, a choice taken despite the availability of other options and instead of making restorative investments, undermines the intended mutual benefit by creating asymmetric market access for Alberta supply.

I sincerely hope that all interested parties can expeditiously work towards and support those policies, market enhancements, and infrastructure investments that result in increased, efficient, and mutually beneficial electricity trade over the Intertie.

Sincerely,

Josie Osborne
Minister

cc: Shannon Baskerville
Deputy Minister
Ministry of Energy, Mines and Low Carbon Innovation
shannon.baskerville@gov.bc.ca

David James
Deputy Minister
Ministry of Affordability and Utilities
david.james@gov.ab.ca

Les MacLaren
Strategic Energy Advisor
Ministry of Energy, Mines and Low Carbon Innovation
les.maclaren@gov.bc.ca

MINISTRY OF ENERGY, MINES AND LOW CARBON INNOVATION

BRIEFING NOTE FOR INFORMATION

PREPARED FOR: Honourable Josie Osborne, Minister of Energy, Mines and Low Carbon Innovation

ISSUE: Update regarding restoration of the British Columbia and Alberta Intertie

BACKGROUND:

The Alberta Electric System Operator (AESO) has a history of relying on the British Columbia (B.C.) - Alberta Intertie to the detriment of B.C.'s interests, including those of BC Hydro and Powerex. Repeatedly, the AESO has chosen to mitigate its reliability risks by limiting commercial import capacity on the Alberta portion of the Intertie rather than pursuing alternative actions or investments in Alberta. This allows the AESO to hold transmission capacity that Alberta can use to draw energy from neighboring jurisdictions during emergencies without compensating the parties who own and fund the B.C. portion of the Intertie (BC Hydro and BC Hydro's transmission customers, including Powerex).

Since 2007, Alberta has had an obligation under its Transmission Regulation to fully restore the import capability on the Intertie. Despite this, in March 2023, the AESO chose to immediately and unilaterally further reduce the commercial import capacity of the Intertie to between 250 and 350 megawatts (MW), or about one quarter of the Intertie's 1,200 MW rated capacity. ^{s. 21}

Fast Frequency Response Services

The AESO's November 2023 plan to restore the Interties (B.C. to Alberta Intertie and MATL) included procuring additional fast frequency response (FFR) services through short term contracts and investing in Alberta transmission infrastructure including MATL. ¹

In early 2024, the AESO launched a procurement process to secure short-term FFR services. On July 23, 2024, the AESO advised that it had executed contracts for an additional 160 MW of FFR services over a three-year period:

- 45 MW online by the end of 2024;
- 15 MW online by the end of 2025; and
- 100 MW online by the end of 2026. ²

¹ The AESO's plan was outlined in a letter dated December 13, 2023, from Deputy Minister Tim Grant to Deputy Minister Shannon Baskerville. In response, Minister Osborne sent a letter to Minister Neudorf dated April 9, 2024, requesting that Alberta and the AESO take prompt action to fully restore Intertie capacity. Minister Neudorf has yet to respond and Powerex notes that the AESO has not proceeded with any upgrades to MATL.

² AESO Stakeholder Update (July 23, 2023): https://www.aesoengage.aeso.ca/fast-frequency-response-services-procurement/news_feed/july-23-2024-stakeholder-update.

In addition to the fact that the short-term nature of the contracts precludes any enduring restoration, the procured services will not come online all at once but over three years, with the bulk of the services not coming online until 2026. Further, it is unlikely that each MW of procured FFR service will result in an equivalent increase in Intertie import capacity.

The Restructured Energy Market (REM) – Intertie Participation

Alberta is undertaking a wholistic redesign of its energy-only electricity market which may have implications for the Interties. Following stakeholder consultation in the second half of 2023, the AESO submitted a report to the Alberta Minister of Affordability and Utilities in January 2024 recommending a Restructured Energy Market (REM). In March 2024, the Minister directed the AESO to proceed with designing and implementing the REM.

On July 3, 2024, the Alberta Minister provided further guidance to the AESO on the REM design. Notably, the Minister directed the AESO to introduce a day-ahead energy market, which may help address Alberta's reliability concerns. The Minister also indicated that the Province was seeking to update Alberta's Transmission Regulation, transmission planning, and tariff design. Details on these changes have not been provided to date. Alberta's policy towards Interties also remains unclear.

On July 11, 2024, the AESO advised that one of the first major REM topics for consultation is Intertie participation. The AESO also released an options paper on July 18, 2024, related to Intertie participation. Comments are due August 9, 2024. In the options paper, the AESO makes it clear that plans to restore the Interties (including procurement of FFR services) are out of scope for the REM. However, the AESO clarified that they still plan on moving forward with restoring the Intertie through their proposed plan to secure FFR services, as noted above.

The broad scope of the REM could introduce new risks to Intertie participants in the AESO markets. Items under consideration include changing how both Intertie transactions are priced and how import/export capability is determined on the Interties. Depending on the market choices the AESO makes, transactions on the Interties could become more efficient and fairer, or less efficient and more discriminatory. B.C. will have to vigorously advocate for fair and efficient treatment of the Interties in the AESO's market redesign.

Import related Complaints before the Alberta Utilities Commission (AUC)

Suncor

In April 2024, Suncor Energy Inc. (Suncor), a large industrial customer and generator in the AESO market, filed a complaint related to Intertie transactions. Suncor believes the AESO market rules treat Alberta generators inequitably relative to market participants who import into Alberta over the Interties. Suncor's requested relief includes applying a charge on imported energy. As this requested relief would harm Powerex, Powerex is actively participating in the proceedings to challenge the merits of the complaint and the requested relief.

Berkshire Hathaway Energy Canada (BHE)

In February 2024, BHE, owner of MATL, filed a complaint with the Alberta Utilities Commission (AUC) alleging that the AESO was improperly limiting the import capacity on the interties into Alberta. BHE alleges the AESO does not plan their electricity system to allow for full use of the Interties import capability, and unfairly applies AESO rules with respect to Intertie transactions. Powerex is an intervener in the complaint but has not filed submissions.

The AESO has moved to have the Suncor complaint put on hold and the BHE complaint dismissed altogether. The AESO asserts that REM design will likely include changes affecting the treatment of the Interties and Intertie transactions. The AUC is considering the AESO's motions.

DISCUSSION:

s. 13, s. 16

s. 13, s. 16

NEXT STEPS:

s. 13

Attachments:

Draft letter to Minister Neudorf

DRAFTED BY:

Frank Durnford, ED, Market
Policy, Powerex
Tom Bechard, President &
CEO, Powerex

APPROVED BY:

Lee Johnson, Dir and A/ED, EPB ✓
Les MacLaren, ADM, DMO ✓
Nate Amann-Blake, A/DM ✓