

January 31, 2014

Janet Fraser
Chief Regulatory Officer
British Columbia Hydro and Power Authority
333 Dunsmuir Street
Vancouver, British Columbia, V6B 5R3

Dear Ms. Fraser

Re: **BC Hydro Headroom Tariff Proposal**

The Alberta Electric System Operator (AESO) opposes BC Hydro's proposal to introduce a rate schedule "under which the AESO could pay for capacity on BC Hydro's transmission system for the purpose of energy flows to Alberta that result from internal AESO contingencies."ⁱ The proposed physical enforcement mechanism will result in potential reliability implications to the Alberta interconnected electric system (AIES) and will lead to a reduction in total transfer limits on the AB-BC intertie. BC Hydro's proposal would result in unwarranted and unacceptable costs to Alberta transmission system rate payers, including intertie users. The unilateral imposition of an explicit charge for one element of mutual support is contrary to the agreements under which the AB-BC intertie was built and operated for the last 30 years, and contrary to the AESO's understanding of FERC requirements designed to prevent abuse of monopoly power.

As the Balancing Authority for Alberta, it is the AESO's responsibility to set import limits to ensure reliable operation of the AIES. These limits are set following established NERC and WECC reliability standards and must factor in system conditions and equipment characteristics. Contrary to BC Hydro's assertion that the AESO is acting to "set aside" capacity on the BC system, the AESO is merely operating the Alberta transmission system in a prudent manner consistent with how the intertie has agreed to be operated since it first came into service in the mid-1980s. It is a physical reality that generator contingencies on one part of the WECC interconnection will result in physical energy flows on the rest of the interconnected system. Setting scheduling limits which take into consideration the impact of contingencies in both BC and Alberta has been a common practice on the AB-BC intertie since the intertie entered service, and is in accordance with reliable operating practices across North America. Not only is BC Hydro's proposal unjust and unduly discriminatory, the AESO believes it undermines the spirit of mutual benefit which all entities throughout the WECC enjoy through being interconnected to a larger system.

The AESO intends to participate fully in the regulatory proceeding in the event BC Hydro files this proposal with the BCUC.

Yours truly,



Mike Law
Vice President, Market Services

cc: Heidi Kirrmaier, Vice President, Regulatory - AESO

¹ January 10, 2014 BC Hydro Letter RE: Headroom Tariff Consultation Workshop – Consultation Materials and Agenda