February 27, 2008

Alberta Utilities Commission
Fifth Avenue Place East
4th Floor, 425 – 1st Street SW
Calgary, Alberta
T2P 3L8

Attention: Mr. Jay Halls, Application Officer

Dear Jay:

Re: AESO Terms and Conditions Amendments to Reflect Revised Interconnection Process Business Practices

As a result of discussions and consultation with stakeholders since the filing of the AESO’s 2007 General Tariff Application (GTA) on November 3, 2006, the AESO has implemented revised business practices associated with the interconnection process effective February 1, 2008. The AESO is accordingly filing this application to amend certain aspects of its terms and conditions of service to more closely align with the revised business practices.

In its 2007 GTA, the AESO noted that consultation on the interconnection process was on-going, and that changes to the terms and condition might be requested once consultation was complete. Specifically, the GTA stated on pages 5-6 of section 6:

During the AESO’s stakeholder consultation process for the 2007 GTA, the AESO originally proposed to make a number of revisions to Article 5 to align the interconnection process practices with the Tariff. Since that initial consultation, the AESO has undertaken additional stakeholder consultation relating to business practices in respect of interconnection queue management and compliance milestones which may have an impact on Article 5. As such, the AESO does not propose any major changes at this time. The AESO proposes only minor refinements to Article 5 in this Application, and upon completion of the business practice consultation process, the AESO will include any necessary changes to Article 5 in a future update of its Terms and Conditions.

Having completed the consultation process and implemented the revised business practices, the AESO has concluded that revisions to Article 5 are not required. However, the AESO is applying...
for approval of three modifications to other aspects of its terms and conditions of service to provide additional clarity and alignment with the revised business practices, as follows:

1. Addition of the defined term “Planning Capacity”

2. Revisions to Contract Capacity Allocation Article 13.1 regarding Available Capacity

3. Revisions to Contract Capacity Allocation Article 13.2 regarding Requirement of Customer to Act

**Background on the Revised Interconnection Process**

Throughout the application process for system access service, a customer’s rights and responsibilities are identified in the AESO’s approved terms and conditions of service. The interconnection process is subject to the terms and conditions, and is supported and clarified by related AESO business practices.

The AESO is committed to developing such business practices through inclusive consultation with stakeholders. The AESO’s interconnection process business practices were extensively revised in 2005 based on consultation with stakeholders to identify and test areas for improvement. The AESO conducted additional consultation on interconnection queue management starting in early 2006, and completed the consultation in 2007 after fully evaluating stakeholder concerns related to project milestone obligations.

An early step in the AESO’s interconnection process is the establishment of priority with respect to customers’ requests for interconnection to the transmission system. The AESO assigns resources to projects and allocates capacity for transmission planning purposes in accordance with the projects’ priorities. In addition, the “queue” of projects resulting from project prioritization is used in assessing and developing larger transmission system planning activities.

Through consultation with stakeholders on interconnection process business practices, key revisions to the interconnection process were developed. These revisions are outlined in the Project Milestone Obligations document available on the AESO web site at www.aeso.ca by following the path Transmission ► Connecting to the Grid ► Customer Interconnections ► Project Milestone Obligations.

The revisions address several concerns identified with the existing interconnection process, including:

(a) a need to allocate capacity for transmission planning purposes significantly before an interconnection proposal is available as a basis for establishing contract capacity;

(b) provision of queue position certainty and transparency that will be maintained throughout the duration of a project (from initial application to energization) if project milestones are met; and
(c) standardization of project milestones that, if not met, could move a project to the bottom of the queue and make capacity available to be allocated to other projects.

The revisions to the interconnection process therefore included the following principles as stated in the Project Milestone Obligations document:

The milestone obligations are based upon the following principles:
1. Preliminary Assessment Applications (“PAA”) will be used to establish queue position and to allocate transmission capacity and work priority to projects on a first come, first serve basis.
2. The AESO will work with the Transmission Facility Owner (“TFO”) in order to provide the customer with an Interconnection Proposal in a timely manner.
3. The AESO will work collaboratively with the customer and other industry participants (TFO, Distribution Facility Owners, Alberta Utilities Commission (“AUC”)), in an effort to achieve customer requested in-service dates.
4. Milestones are put in place in order to ensure projects progress at a reasonable rate. Customers are required to meet the Milestones in order to maintain queue position, work priority, and allocated transmission capacity.
5. Milestone obligations may be adjusted in the event that a system transmission reinforcement is required, which could delay the customer interconnection project’s in-service date.

The resulting interconnection process facilitates the efficient progression of interconnection requests, ensures consistent and non-discriminatory treatment of customers, and fairly and efficiently assigns work priority and transmission capacity. The AESO also considers that the revised interconnection process complies with the AESO’s tariff, and that additional clarity and alignment would be achieved through an amendment to the AESO’s terms and conditions as discussed above.

The interconnection queue business practices were set out in a discussion paper issued on September 26, 2007 and available on the AESO web site at www.aeso.ca by following the path Grid Operations►Wind Power►Wind Power Interconnection►Discussion Paper: Interconnection Queue Business Practices. The discussion paper outlined how the interconnection queue business practices supported the AESO’s provision of open transmission system access and its planning and development of transmission facilities to meet need in a timely manner, while facilitating an openly competitive electricity market and reliable operations. The discussion paper also indicated the AESO would seek a tariff amendment to ensure alignment between the tariff and the proposed interconnection process. The AESO received generally positive feedback with regards to the proposed practices, and therefore implemented them effective February 1, 2008.

**Proposed Tariff Revisions**

The AESO is accordingly applying for approval of three modifications to its terms and conditions of service to provide additional clarity and alignment with the revised business practices, as further described below. The proposed modifications do not reduce requirements for
a customer to establish contract capacity in a System Access Service Agreement, to provide security in accordance with Security and Customer Agreements Article 5, or to pay applicable customer and system contributions before the start of construction of transmission facilities in accordance with Customer and System Contribution Policy Article 9.

The affected paragraphs are the same in both the AESO’s current terms and conditions of service (as approved by the Alberta Energy and Utilities Board in Order U2005-464 on December 20, 2005) and the AESO’s proposed terms and conditions of service as included in the AESO 2007 General Tariff Application Refiling dated February 1, 2008 (Application 1558815 to the Alberta Utilities Commission, or AUC). Upon approval, the revisions will be made to whichever version of the terms and conditions is in effect at the time of approval, whether current or proposed.

1. Addition of Defined Term “Planning Capacity”

The interconnection queue business practices address the point in the interconnection process where a customer is allocated transmission capacity for AESO planning purposes. Under the revised interconnection process, this planning capacity will be allocated on receipt by the AESO of an application for interconnection in the form of a Preliminary Assessment Application (PAA).

The terms and conditions currently include a definition of “Contract Capacity” as “the peak demand or supply capability (expressed in MW), as set out in the System Access Service Agreement”. This term will continue to be applicable to a Customer that has executed a System Access Service Agreement in accordance with Provision of System Access Service Article 3.

A PAA is submitted several months, and sometimes years, in advance of signing a System Access Service Agreement. The PAA also includes a capacity request which is used for the AESO’s planning purposes and which frequently differs from the Contract Capacity eventually included in a System Access Service Agreement. It is therefore useful to differentiate between the Planning Capacity requested in a Customer’s PAA and the Contract Capacity established at the time the Customer executes a System Access Service Agreement. In accordance with the revised interconnection process, new projects will have Planning Capacity allocated to them upon submission of a PAA.

The AESO therefore proposes to include the following in Definitions and Interpretation Article 1, in alphabetical order:

“Planning Capacity” means the peak demand or supply capability (expressed in MW), as requested in a Customer’s application for System Access Service.

This definition of Planning Capacity supports the revisions proposed for Articles 13.1 and 13.2.
2. **Revisions to Contract Capacity Allocation Article 13.1 Regarding Available Capacity**

The current Article 13.1 contemplates the allocation of Contract Capacity when a Customer executes a Construction Commitment Agreement, with that allocation determining the priority of the Customer’s project in relation to other projects. The revised interconnection process determines a project’s priority earlier in the process, at the time of PAA. The AESO therefore proposes the following revision of Article 13.1 to clarify the allocation of Planning Capacity in the revised interconnection process (changes indicated in bold):

13.1 **Available Capacity**
(a) The AESO will Allocate **Planning Capacity** for a new or expanding POC according to available AIES capacity as of the date the AESO receives an application for System Access Service, as set out in Article 5. The AESO will inform the Customer of any AIES constraints in respect of a new or expanding POC.
(b) For the purposes of this Article 13, “Allocate Planning Capacity” means that the AESO will assign Planning Capacity to a project for planning purposes and project work priority as of the date set out in paragraph (a), above.

3. **Revisions to Contract Capacity Allocation Article 13.2 Regarding Requirement of Customer to Act**

The current Article 13.2 contemplates but does not define critical milestones established by the AESO and the Customer in conjunction with the TFO. The revised interconnection process defines project milestone obligations and AESO obligations at different stages in the interconnection process. The milestones apply to all projects, although (as noted in the principles quoted above) the milestone obligations may be adjusted.

The AESO therefore proposes the following revision of Article 13.2 to clarify the critical milestones which apply in the revised interconnection process (changes indicated in bold):

13.2 **Requirement of Customer to Act**
(a) The AESO, acting reasonably, may establish critical milestones with respect to project completion and may agree with the Customer on such milestones.
(b) For STS customers, milestones will include but not be limited to payment of the System Contribution determined under Article 9.11:
   (i) within 90 days after EUB approval of the local interconnection facilities required to facilitate the interconnection of the STS Capacity; or
   (ii) if construction of local interconnection facilities is not required to facilitate the interconnection of the STS
Capacity at an existing POS, within 90 days after execution of an amended System Access Service Agreement for the POS.

(c) If the Customer fails to meet such milestones, the AESO may:

(i) cancel, and require the Customer to resubmit, the Customer’s application for System Access Service;

(ii) re-allocate the subject Planning Capacity to another applicant whose System Access Service application date is later than the Customer’s application date determined in Article 13.1(a); or

(iii) proceed, with no modification to the Allocated Planning Capacity, with the Customer’s original application for System Access Service on the basis of amended milestones, as agreed by the AESO.

In summary, these proposed modifications define the new term Planning Capacity, explain how Planning Capacity is utilized in the interconnection process, and clarify how milestones are established to facilitate efficient progression of interconnection requests.

For additional information, a blackline version of the proposed tariff amendments is attached to this letter.

The AESO submits the nature of these revisions is simply to clarify those aspects of the tariff which relate to the interconnection process and to align with that process as determined as a result of extensive stakeholder consultation. The revisions do not alter the underlying intent of the affected paragraphs that have previously been approved.

The AESO therefore requests the AUC approve these revisions as filed. The revisions will be incorporated into the tariff in effect at the time of approval, whether that is the currently approved tariff or the proposed tariff submitted as part of the AESO’s 2007 GTA Refiling.

If you have any questions on this application, please contact me at (403) 539-2465 or by e-mail to john.martin@aeso.ca, or Lee Ann Leduc at (403) 539-2741 or by e-mail to leeann.leduc@aeso.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

cc Heidi Kirrmaier, Regulatory, AESO
    Lee Ann Leduc, Regulatory, AESO