

- (d) a material error is detected in the original calculation;
- (e) there is a material difference between the estimated costs of the project and the actual costs of the project;
- (f) the AESO subsequently deems that all or part of a Customer's Facilities have subsequently become system-related; or
- (g) the period of advancement as set out in Article 9.3(c) is materially reduced.

Proposed Article 9.9 (emphasis added)

Certain material events may, in the AESO's sole opinion, result in an adjustment to the Customer Contribution and as appropriate, payments by the AESO to the Customer or by the Customer to the AESO.

Adjustment calculations will rely on the tariff in effect at the time of the request for System Access Service (which may differ from this tariff).

Either the Customer or the AESO may initiate an adjustment of the Customer Contribution at any time prior to the expiration of the twenty year refund period as set out in Article 9.10. The circumstances giving rise to contribution adjustments include, but are not limited to, those in which:

- (a) **a Customer materially increases its Contract Capacity or contract term prior to the expiration of its original DTS System Access Service Agreement and does not necessitate the construction of new transmission facilities;**
- (b) **a Customer materially decreases its Contract Capacity or contract term prior to the expiration of its original DTS System Access Service Agreement;**
- (c) the actual Contract Capacities and/or incremental revenues turn out to be materially different, on a sustained basis, than originally projected;
- (d) a facility that had been classified as system-related under Article 9.3(c) is reclassified as Customer-related due to load growth or the addition of a new POC;
- (e) a material error is detected in the original calculation;
- (f) there is a material difference between the estimated costs of the project and the actual costs of the project;
- (g) the AESO subsequently deems that all or part of a Customer's Facilities have subsequently become system-related; or
- (h) the period of advancement as set out in Article 9.3(c) is materially reduced.

6.5.2 Prepaid Operations and Maintenance

The application of a 12% prepaid Operations and Maintenance (O&M) charge on costs of AESO Standard Facilities and facilities in excess of standard was approved in Decision 2005-096. The AESO submits the charge on facilities in excess of standard should be maintained, but proposes the 12% charge on AESO Standard Facilities be removed.

The Board cited two primary considerations in determining that the O&M charge could be applied to both standard facilities and facilities in excess of standard for DTS customers. On pages 66 and 67 of Decision 2005-096 the EUB highlighted the following considerations:

5 *"...the Board considers that the prepaid O&M charge may be beneficial from the standpoint of economic efficiency and from the standpoint of the desire to send appropriate economic siting and facility development signals through the contribution policy." (page 68)*

10 *"The Board is particularly concerned that, in applying the proposed DTS customer pre-paid O&M charge only to the deemed "optional facility costs" of a new interconnection, the AESO appears to be implicitly assuming that the combined amount of the pre-paid O&M costs associated with the "non-optional" local interconnection facilities and the cost of the non-optional facilities themselves will fall below the level permitted under the maximum investment allowance. However, the Board considers that this should not be presumed, particularly in light of the adjustments to the maximum investment function ordered by the Board in Section 6.1.4 above." (page 68-69)*

20 The Board noted above that it was inappropriate for the AESO to presume that the combination of standard facility costs and the O&M charge would be covered by the investment level. The AESO acknowledges the Board's position but suggests that such a principle only applies if the customer contribution policy has a set investment level. If the investment level was set at a specific value and was not based upon the number of projects that are not required to pay a contribution – which is not how the current and proposed investment policies are structured (i.e. 80% of projects are not to pay a contribution per Board Directive 13A in Decision 2005-056, and further described below) – the number of customers that would be required to pay a contribution would increase. But as noted the investment level is required to meet the criterion that 80% of projects do not pay a contribution. If the O&M charge was to continue to be applied to standard facilities, the cost function would increase but so would the investment level function so as to maintain the target of 80% of projects not having to pay a customer contribution. As such, the AESO is of the view that the benefit to economic siting and facility development originally intended by the Board by including the O&M charge is very limited.

35 The AESO also suggests that the O&M charge on standard facilities does not achieve the economic efficiencies intended by the Board. The O&M charge would create additional accounting treatment concerns and infrastructure requirements for Transmission Facility Owners (TFOs). Additional time and resources will be required to modify current processes and accounting infrastructure to effectively separate and track capital costs of the transmission facilities as compared to traditional expense treatment for O&M. New procedures and processes would also be required to ensure O&M costs are being recovered correctly and are not recovered in other components of the TFOs revenue requirement.

The AESO is concerned it will also reduce the efficiencies and harmonization efforts undertaken by the AESO and the Distribution Companies (DISCOs). The DISCOs include an O&M charge only on optional facilities; the application of the O&M charge on standard facilities by the AESO creates misalignment between the AESO and the DISCO Tariffs.

5

Other considerations supporting the removal of the O&M charge include:

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- Avoids intergenerational inequity, as customers prior to 2006 were not required to pay for such a charge yet all transmission customers pay the same DTS rate;
- Prevents additional Tariff complexity, i.e. additional articles required to clarify the application of the charge in circumstances where the customer's contract terms may be less than 20 years; and
- AESO stakeholder consultation suggests that stakeholders are opposed to the charge on standard facilities and have asked the AESO to remove the provision citing similar reasons as outlined above.

15

Based upon the above rationale, the AESO proposes the O&M charge only apply to facilities in excess of standard. The proposed changes to Article 9.4 along with the currently approved Article 9.4 are provided below.

20

Existing Article 9.4:

9.4 Prepaid Operations and Maintenance

For customers taking service under Rate DTS, a prepaid operations and maintenance charge of 12% will be added separately to the costs of:

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- (a) AESO Standard Facilities required to provide service to the customer where these costs are eligible for Local Investment determined in accordance with Article 9.6; and
- (b) Facilities which exceed the AESO Standard Facilities required to provide service to the Customer.

30

Proposed Article 9.4:

9.4 Prepaid Operations and Maintenance

For customers taking service under Rate DTS, a prepaid operations and maintenance charge of 12% will be added to the costs of facilities which exceed the AESO Standard Facilities required to provide service to the Customer.

35

6.5.3 Determination of Customer Contribution

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The AESO proposes to amend the Customer Contribution Policy. The proposal is primarily the result of responding to the EUB's directions in Decision 2005-096.

Reference: Section 6.1.1 – Prepaid Operations and Maintenance, pp. 13-15 of 47

Request:

- (a) Please confirm that the purpose of the prepaid O&M charge is to cover incremental O&M costs expected to be incurred by the TFO as a result of the interconnection of the new customer. If this cannot be confirmed, please explain.
- (b) Please explain the rationale for using the optional portion of a new facility cost for the purposes of the determination of the prepaid O&M amount to be recovered from an interconnecting customer. In particular, please explain why the pre-paid O&M charge should not be based on the full amount of the incremental TFO O&M cost expected arise from the new customer's interconnection.
- (c) Please confirm that prepaid O&M charge is only intended to cover off incremental TFO O&M costs arising from a new interconnection and not incremental TFO labour or other costs that may be capitalized as part of the TFO's capital maintenance expenditures. If this cannot be confirmed, please explain.
- (d) If your response to c) confirms that the prepaid O&M charge is intended to only target incremental O&M costs and not incremental labour and other costs that may be capitalized, please explain why it would not be appropriate to also consider capitalized portion of incremental costs as part of the determination of a prepaid O&M charge.
- (e) In light of your answer to c) above, please provide the AESO's estimate of the average incremental annual O&M expense that arises from a dollar of investment in a new interconnection facility.

Response:

- (a) The AESO generally considers including an O&M amount in customer related costs reflects the full costs the TFO is expected to incur as a result of interconnecting a new customer.
- (b) The AESO proposes that O&M costs associated with standard service obtained through Standard Facilities are properly recovered through average rates, and therefore including an O&M amount in the customer related costs for standard facilities (used to determine the contribution) is not necessary. The AESO understands TFOs include in their revenue requirements total forecast O&M expenses that cover all expected O&M regardless of whether contributions were made for new services or not, and therefore all O&M costs are already included in the AESO's average rates. The AESO notes it has been historical practice for O&M expenses, including any capital expenditures for standard system access service provided by the AESO and regulated TFO, to be recovered through average rates. The AESO also understands the distribution

companies' (Discos') contribution policies include prepaid O&M only for facilities in excess of Standard (i.e. optional).

As such, the AESO proposes to include an O&M component in facilities costs in excess of Standard (i.e. optional) but not in Standard Facilities costs primarily for the following reasons:

- The O&M adder to the contributions for facilities in excess of Standard ensures customers selecting optional facilities receive an appropriate price signal that the postage stamp rate that they will pay going forward reflects only costs that are associated with the standard level of service provided by the AESO.
- Applying the O&M adder to the cost of standard facilities would create intergenerational inequity as customers prior to the 2005/2006 tariff were not subject to this incremental charge.
- The proposed tariff maintains harmonization between the AESO and the DISCOs, since as noted above it is the AESO's understanding that the DISCOs currently apply an incremental O&M charge only to optional facilities.

(c) Confirmed. Also please see the response to (b) above.

(d-e) The AESO continues to rely on the definition of O&M applied in the 2005/2006 Application. The AESO interpreted the O&M charge to represent only O&M expenses required to maintain system access service. The basis for the 12% charge (approved in Decision 2005-096) was discussed in the AESO's 2005/2006 GTA Information Request response ALPAC.AESO-003 (a-h) and is attached to this response as Attachment BR.AESO-012.



**ALBERTA ELECTRIC SYSTEM OPERATOR
AESO 2005-06 General Tariff Application (1363012)**

Friday, February 25, 2005

ALPAC.AESO-003 (a-h)

Page 1 of 4

Title: Terms and Conditions of Service

Reference: Prepaid Operations and Maintenance (O&M), Section 6 - Terms and Conditions of Service, p. 20 of 42 and Section 7 – Tariff, s. 9.13 Prepaid Operations and Maintenance, p. 60 of 84.

Preamble: Alpac seeks clarification on the derivation of the Prepaid Operations and Maintenance rate.

For this application, the AESO has proposed to charge prepaid operations and maintenance at 12% of capital cost. This charge is not based on a detailed analysis by the AESO, but is based on the minimum such charge used by other utilities in Alberta. A preliminary review by the AESO indicates this is the minimum reasonable level, and additional analysis for each TFO may result in higher prepaid operations and maintenance charges in future rate applications.

- Request:**
- (a) Please provide all documentation to support the statement that the proposed 12% O&M charge “is based on the minimum such charge used by other utilities in Alberta.”
 - (b) Please provide documentation from each Alberta TFO's Terms and Conditions outlining their respective levels of Prepaid O&M.
 - (c) Please provide all preliminary review documentation related to the AESO's statement: “preliminary review [of the 12% Prepaid O&M rate] by the AESO indicates this is the minimum reasonable level”.
 - (d) Please confirm that the implementation of the 12% Prepaid O&M proposal will increase the connection costs paid by generators by 12%, given that generators pay all interconnection costs. If the AESO cannot confirm, please provide full details.
 - (e) The application states (s. 6, p. 20 of 42): “Section 16(1)(a) of the Transmission Regulation requires owners of generating units to pay all local interconnection costs for connecting to the transmission system.” Please confirm that this provision of the Transmission Regulation is consistent with AESO policy that has been in place since January 1, 1996. If the AESO cannot confirm, please provide full details. Please also discuss the rationale for implementing the 12% Prepaid O&M proposal at this time.
 - (f) Please confirm that using a taxable TFO Discount Rate of 9.27%, the schedule of payments outlined under Schedule 2 in each of Riders A2, A3 and A4 (s. 7, p. 16 to 29 of 84) and the capital charges as outlined in each of Riders A2, A3 and A4 the Present Value (PV) of the Other Expenses Charges for each Rider and the % of PV Expenses are as follows:

% PV Expenses = PV(9.27%) Other Expenses Charge / Capital Charge

	PV Other Expenses Charge	Capital Charge	% of PV Expenses
Rider A2	\$33,829	\$2,375,000	1.4%
Rider A3	\$35,553	\$2,907,800	1.2%
Rider A4	\$68,322	\$5,968,800	1.1%

If the AESO cannot confirm, please provide full details. The calculations are provide in the following embedded spreadsheet:

- (g) Please reconcile the % PV Expenses derived above, which can be characterized as the “pre-paid” cost for each ISD holder to operate and maintain the assets the ISD holder would have had to install to create a physical bypass,¹ with the proposed 12% Prepaid O&M charge.
- (h) Please discuss the equity between customers when comparing the charges outlined in f) above for ISD customers and the proposed 12% Prepaid O&M charge. Please also discuss the comparability of the charges.

¹ Decision 2000-70, p. 3: “In its IR responses to the Board, EAL advised it had contracted with ATCO Electric to prepare a detailed year by year estimate of the operating and capital improvements, which resulted in the forecast for the Other Expenses Charge.”

Decision 2002-60, p. 5: “The Other Expenses Charge simulates expenses for operating and maintenance, capital improvements, and property tax that Shell Canada would incur with the Duplicate Facilities alternative. The TA believed that the Other Expense Charges were commercially reasonable for Duplicate Facilities.”

Decision 2002-19, p. 5: “In the Application EAL proposed an Other Expenses Charge to reflect other expenses that Imperial Oil would incur under the Duplicate Facilities alternative. These expenses consisted of operating and maintenance, capital improvements, and property tax.”

- Response:**
- (a) ATCO Electric’s current Price Schedule D32 (effective January 1, 2003) includes a 3.76% per year incremental operations and maintenance charge for generating customers. FortisAlberta’s current terms and conditions of distribution tariff services (effective January 1, 2005) charges 20% prepaid operations and maintenance for “optional facilities” and for distribution connected generation customers. Vertically-integrated utilities in Alberta previously assessed a 12% prepaid operations and maintenance charge.
 - (b) To the AESO’s knowledge, no Alberta TFO’s terms and conditions provide for a prepaid operations and maintenance (or equivalent) charge.
 - (c) The AESO did a cursory assessment of each TFO’s annual operating expense as a percentage of it gross property, plant, and equipment, based on

the TFO's most recent approved tariff application. The results were as follows:

Transmission Facility Owner	Annual Operating Expense \$ 000 000	Gross Plant, Property, and Equipment \$ 000 000	Ratio %
AltaLink	\$ 56.1	\$1,763.9	3.2%
ATCO Electric	43.1	1,193.0	3.6%
EPCOR Transmission	10.8	289.4	3.7%
ENMAX Power	17.3	209.8	8.2%
Lethbridge	2.6	24.0	11.0%
Red Deer	0.9	11.8	7.3%
TransAlta Utilities	1.2	26.5	4.5%
Total	\$ 131.9	\$3,518.5	3.7%

This range of operating expense ratio would all result in materially greater than a 12% prepaid operation and maintenance charge over a 20 year contract term. Even with appropriate additional adjustments, such as estimating the replacement cost new for the gross property amount and utilizing annual operating expense and gross property relating to customer-related facilities only, the ratios are expected to still support a prepaid O&M charge greater than 12%.

- (d) Confirmed. Please refer to Information Response BR.AESO-041 (a) for an example calculation.
- (e) Confirmed. The Transmission Regulation establishes in legislation the prior practice of the AESO and its predecessor organizations. With the formalization of this practice, with other changes to the AESO's contribution policy, and with the overall review of the AESO's terms and conditions completed as part of its 2005-2006 GTA, this Application seemed an appropriate time to introduce the prepaid operation and maintenance charge.
- (f) The AESO confirms the amounts presented in part (f) of the request. The AESO notes that the "PV Other Expenses Charge" is a present value of 40 monthly charges. The present value of 40 annual amounts is as follows:

	PV Annual Other Expenses Charge	Capital Charge	% of PV Expenses
Rider A2	\$405,950	\$2,375,000	17.1%
Rider A3	\$426,683	\$2,907,800	14.7%
Rider A4	\$819,859	\$5,968,800	13.7%

- (g) The "% of PV Expenses" presented in part (f) above confirm that 12% is a reasonable minimum level at which to establish a prepaid operations and maintenance charge, until a more detailed assessment can be completed.

- (h) The charges discussed in part (f) above were based on detailed estimates for specific facilities, while the proposed 12% prepaid operations and maintenance charge is a general average to be applied to a variety of projects. As such the numbers are reasonably comparable, and support the use of a 12% charge as a minimum value until a more detailed assessment can be completed. The three DAT customers to which Riders A2, A3, and A4 apply would be treated equitably if other customers were charged a 12% or comparable prepaid operations and maintenance charge for optional facilities.

Preamble: At p. 14 of Section 6, the Application states:

“The AESO also suggests that the O&M charge on standard facilities does not achieve the economic efficiencies intended by the Board. The O&M charge would create additional accounting treatment concerns and infrastructure requirements for Transmission Facility Owners (TFOs). Additional time and resources will be required to modify current processes and accounting infrastructure to effectively separate and track capital costs of the transmission facilities as compared to traditional expense treatment for O&M. New procedures and processes would also be required to ensure O&M costs are being recovered correctly and are not recovered in other components of the TFOs revenue requirement.”

Reference: Section 6.1.1 – Prepaid Operations and Maintenance, pp. 13-15 of 47

Request:

- (a) Please explain what the AESO understands the “economic efficiencies intended by the Board” to be as referenced in the above noted passage.
- (b) As compared to the procedures adopted by the TFO’s in response to the prepaid O&M provisions approved in Decision 2005-096, please explain what additional accounting treatment concerns and infrastructure requirements that AESO considers the TFO’s would require.
- (c) Please provide an estimate of the incremental TFO costs the AESO considers would stem from TFO activities referenced in part b) above. Please provide all assumptions used in deriving this estimate.
- (d) Please explain why the AESO considers that the TFO’s would need to modify processes and accounting infrastructure to separately track capital costs in order to implement the prepaid O&M recovery mechanism approved by the Board in Decision 2006-096.

Response:

- (a) The AESO considers there are two aspects related to “economic efficiency”, the first of which it believes may have been intended by the EUB.

The first is the economic signal provided to the customer in the form of a contribution payment where costs exceed available investment. As noted in Section 6.5.2, page 14 of the Application, the AESO suggests that such a signal only works if the customer contribution policy has a set investment level. Since, however, both the current (including O&M) and proposed (excluding O&M) investment policies are set based on the principle that 80% of projects are targeted not to pay a contribution, while 20% are to

pay a contribution, the level is not fixed but moves in order to achieve the target. In other words, with the O&M charge included in the cost of Standard Facilities, the cost function would increase but so would the investment level function, in order to maintain the target of 80%. On that basis, it seems to the AESO that the intended signal of including O&M is largely lost.

The second aspect is in relation to the AESO's interpretation that the prepaid O&M component approved in Decision 2005-096 was intended by the EUB to be an actual pre-payment of O&M costs. This interpretation could, as the AESO understands it, result in an additional administrative exercise which it views as a potential inefficiency. Based on the interpretation that prepaid O&M forming part of contributions was intended to be actual pre-payment of O&M costs, it was assumed the TFOs should account for the O&M portion of the contribution separately (i.e. not to offset ratebase but apply it against actual O&M expenses over some period of time), which would require a new administrative exercise. To further ensure consistency in the overall tariff treatment, the AESO's DTS rates would have to be adjusted to recover only the net O&M; that is, the total O&M expenses of the TFOs, less the amount forecast to be recovered through contributions.

- (b) The AESO is of the understanding the TFOs may not have modified their processes to adapt the outcomes of Decision 2005-096, as described in (a) above. Therefore, if the O&M component remains included in the costs in the 2007 tariff, and if in fact the AESO's interpretation is correct that the O&M component is intended to offset O&M expenses and not ratebase, then the AESO expects the TFOs would set up processes and procedures to account for the prepaid O&M as an expense rather than simply applying total customer contributions as offsets to ratebase.
- (c) The AESO does not have this information.
- (d) Please see the response to (a) and (b) above. As stated, the AESO had previously assumed that the approved prepaid O&M was exactly that: prepayment of O&M expenses. However, upon further consideration the AESO believes the entire contribution determined on that basis could be treated as capital (as it understands has been the case historically in relation to the O&M component in contributions for optional facilities), since it is paid in one lump sum, and therefore has the actual effect of lowering the amount the TFO needs to invest in the project at that time (i.e. provides no-cost capital). Going forward, the O&M expenses would continue to be included in the TFO revenue requirements and recovered in total by the AESO's tariff.

The AESO believes either approach could be reasonable, provided it complies with GAAP. The primary concern to the AESO is that the tariff and the signals provided by it to customers are fair and appropriate. This will be the case under either method as long as there is consistency between the assumptions behind the AESO tariff and the revenue requirements and accounting treatments of the TFOs.

non -transmission, and more specifically where a customer opts for a transmission solution in such a case.

5 The AESO submits that whatever the standard facilities are in any particular case (i.e. the most economic and technically viable solution), the project costs used in the determination of the Local Investment (as used in Article 9 of the Terms and Conditions) should be the transmission facilities that form part of the Standard Facilities (where the Standard Facilities may include both transmission and distribution facilities), regardless of whether the customer opts for a different (and typically higher cost) transmission alternative. This affords the same maximum available investment to the customer regardless of which interconnection facilities the customer ultimately opts for. It retains the 'right' economic signal to the customer; i.e. one that encourages the most efficient manner in which to expand the transmission system. If the customer opts for something else, then he will pay the difference.

15 It also ensures both DISCO and transmission rate payers are protected from paying for facilities in excess of standard transmission facilities through average rates. Regardless of which type of facilities the customer chooses, the remaining transmission (i.e. system access service) ratepayers will pay equivalent rates no matter what individual customers may do in order to meet their specific (i.e. non-standard needs).

20 During the course of the proceeding, no intervenors seemed to take issue with this proposal. The AESO submits the revised wording for Article 9.1 as provided in the Supplemental filing should be approved.

25 **4.3 Prepaid O&M Charge on Standard Facilities**

30 As part of its Application (Exhibit 007, Section 6, pp. 13-15), the AESO proposed to remove the 12 % Operations and Maintenance (O&M) charge imposed on AESO deemed Standard Facilities, and to maintain the 12% O&M charge on costs of facilities in excess of Standard Facilities. The AESO suggested that maintaining the 12% O&M charge on Standard Facilities would increase the number of customers required to pay a customer contribution and would create additional accounting treatment concerns and resource requirements for TFOs. The AESO suggested other considerations supporting the removal of the O&M charge, including:

- 35 • Avoiding intergenerational inequity, where customers prior to 2006 were not required to prepay O&M;
- Preventing additional Tariff complexity; and
- 40 • Stakeholder support of the removal of the charge.

In response to Board IRs (Exhibit 080) the AESO provided the following additional supporting rationale:



- The O&M adder to the contributions for facilities in excess of Standard ensures customers selecting optional facilities receive an appropriate price signal that the postage stamp rate that they will pay going forward reflects only costs that are associated with the standard level of service provided by the AESO.
- The proposed tariff maintains harmonization between the AESO and the DISCOs, since as noted above it is the AESOs understanding that the DISCOs currently apply an incremental O&M charge only to optional facilities. (BR.AESO-12)

And:

The AESO proposes that O&M costs associated with standard service obtained through Standard Facilities are properly recovered through average rates, and therefore including an O&M amount in the customer related costs for standard facilities (used to determine the contribution) is not necessary (BR.AESO-13)

As explained in BR.AESO-13, the AESO also took into consideration in its proposal to remove the prepaid O&M component that it understood initially that the accounting treatment of "prepaid O&M" was expected to offset actual O&M. This would add some complexity for the TFOs. However, the AESO now understands this may not have been the intent and it could be treated like all other customer contributions (i.e. offset ratebase), which removes this concern.

On balance, however, for the reasons above, the AESO submits that the more optimal approach is to remove the prepaid O&M component from the determination of customer contributions for Standard Facilities.

4.4 Staged Contracts and Payments of Related Contributions

The AESO generally encounters two types of system access requests. The first type is in the form of single contract capacity application with no incremental contracted capacity increases. The preparation of the interconnection alternatives primarily focuses on the single contract capacity request; any future contract capacity increase requests are treated as a separate project. Once the Permit and License (P&L) for the recommended interconnection solution has been approved by the Board, the customer, in compliance with Article 9 of the AESO's Terms and Conditions, must pay their customer contribution prior to construction.

The other type of system access request comes in the form of a "staged" contract, where the customer contracts for several future contract capacity increases at the start of the project. The preparation of the interconnection alternatives in such a case necessarily focuses on alternatives that can meet the both the present and proposed future contracted capacities.

The AESO noted in EPCOR.AESO-001 (a-c) (Exhibit 110) that it is often more economic to construct all the interconnection facilities required to accommodate all the contracted

Q *And I noted in 1.1, paragraph 1, the proposals are for a large new customers. Would parties such as the PPGA and the companies it represents fall in that category?*

5 *I believe it would as it states throughout the documents, specifically in Section 2 where it talks about the considerations involved with interconnecting a customer, whether it be on transmission or distribution. So yes, I would say yes.*

10 The AESO notes that it undertakes different types of consultation that engage customers and encourages communication and participation. The AESO engages the necessary parties on a case by case basis, and anticipates participation by interested parties at each stage in the process.

15 The AESO also notes that while the intention of a stakeholder consultation process is consensus, that may not always be the outcome, and the AESO attempts to pursue the most reasonable and fair course of action taking into account all technical and regulatory principles as part of its decision-making process.

20 The AESO notes TransCanada's suggestions regarding consultation and specifically the recommendation "to establish a Rates Committee to review tariff issues (rate design, cost of service, terms and conditions) with the mandate to meet frequently, to provide comments to the AESO, to provide a forum for issues to be reviewed and discussed early in the process, to work the process and to provide feedback to the stakeholders." (TCE Argument, page 1)
25 While the AESO has noted that its tariff consultation process could be improved (4T: 0875, lines 15-23), it does not endorse the "committee" concept put forward by TransCanada. On the one hand TransCanada suggests "sorting out issues on a month-to-month basis" (TCE Argument, page 1), but at the same time TransCanada notes that the experts that could be involved in such a process are expensive.

30 In the AESO's view, rate design is a matter that should be reviewed only at certain (ideally relatively infrequent) intervals, and is not a task that lends itself to continuous review. This would be at odds with the objective of certainty and stability. It certainly does not seem to the AESO that TransCanada's suggested committee approach would enhance efficiency or
35 reduce costs overall.

The AESO agrees with many participants that there is value in consultation which can contribute to a more efficient regulatory review process. Indeed, there are many examples in the 2007 Application which demonstrate that stakeholder feedback was in fact incorporated
40 in the AESO's proposals, resulting in elements of the proposed tariff that were not contentious and were therefore not further examined during the hearing process. For example, stakeholders encouraged the AESO to revert to the traditional approach of determining investment in customer interconnections without a prepaid operations and maintenance component, as discussed in Section 6.5.2 of the Application (Exhibit 007,
45 Section 6, pages 13-15). The AESO accordingly applied to remove the prepaid operations



and maintenance charge which exists in the AESO's current tariff, and no participant in this proceeding has opposed its removal.

5 The AESO provided feedback during the consultation process in a transparent way to the extent possible (Exhibit 004, AESO Application, Section 3, page 2, and as noted throughout Sections 4 and 6 of the Application), but the reality is that there comes a time when the application needs to be filed. While this may mean that opportunities for further feedback no longer exist, and as a result that some parties may not feel they have had the "last word", the EUB will appreciate this reality which the AESO faces in matters concerning its tariff applications.

10
15 The AESO will continue to conduct consultation in advance of filing its tariff applications, in a manner that is designed to contribute to streamlining the review process, wherever reasonably possible. Based on feedback and information gleaned from the 2007 tariff consultation and other consultations conducted by the AESO, the AESO will review and modify the consultation approach in relation to the next occasion of a tariff review. At the same time, lack of consensus or settlement on some matters prior to the regulatory review process should not be considered a failure of the consultation process. This is primarily due to the nature of Phase II matters, where parties often have conflicting interests not just with the AESO but also amongst themselves, as well as the fact that stakeholders engage or commit to the consultation process to varying degrees, given the availability of the EUB regulatory review process.

20