



April 30, 2009

Posted on AESO website

AltaLink Stakeholder Consultation Process Participants
AESO Stakeholders

Dear Stakeholder:

Re: **AESO Comments on Customer Contribution Policy Recommendations
Delivered From AltaLink Stakeholder Consultation Process**

Over the past few months, the AESO has been meeting with stakeholders in consultation on its 2010 tariff application. Some stakeholders have asked about the AESO's response to the recommendations delivered from the customer contribution policy stakeholder consultation process lead by AltaLink during 2008. The following information summarizes the AESO's current considerations with respect to the eight recommendations provided to the AESO on November 21, 2008.

The AltaLink process included representation from AltaLink, ATCO Electric, Depal Consulting, Desiderata Energy Consulting, Enbridge Pipelines, ENMAX, EPCOR, FortisAlberta, Shell Canada, TransCanada, and StatoilHydro. The AESO also attended, primarily as an observer. The group identified concerns with the AESO's customer contribution policy and made recommendations, without prejudice, for consideration in the design of the next AESO contribution policy. The information provided by AltaLink to the AESO can be found on the AESO's website at www.aeso.ca by following the path **Tariff ► Current Consultation ► 2010 Tariff**, in the section titled "Contribution Policy Recommendations from AltaLink Stakeholder Process".

The eight recommendations provided to the AESO are listed below. Additional details were included in the information posted on the AESO's website. Following each recommendation below, the AESO provides preliminary comments in response to the recommendation and also identifies the tariff consultation working group, if any, in which the recommendation may be discussed. Participants in the AESO's tariff consultation may pursue further exploration of these recommendations during the consultation process.

1 Adopt a set of guiding principles into the contribution policy.

The AESO agrees that clear principles and objectives for a contribution policy aid in development of and debate on the policy. The AESO generally agrees with the principles stated in the recommendation. The AESO plans to include a discussion of contribution policy principles as part of its 2010 tariff application. The principles may be discussed in, but are not expected to be a primary focus of, the POD Cost Function working group.

2 Enhance the definition of standard facilities, and lead a stakeholder consultation to develop Planning Principles and Standards of Service.

This recommendation included two specific components: changes to the current definition of “AESO Standard Facilities” and draft planning principles and standards of service.

The AESO anticipates proposing changes to the definition of standard facilities as part of its 2010 tariff application. The AESO is also contemplating providing information regarding its planning principles, either as part of the tariff or as a separate guideline. At this time the AESO does not anticipate preparing detailed standards of service as drafted in Appendix A.1 attached to the recommendations, as the AESO considers that the prescriptive nature of such detailed standards restricts the flexibility required to meet good transmission planning practice and address applicable reliability, protection, and operating criteria and standards.

These matters are expected to be discussed in the Customer Contribution Provisions working group.

3 Incorporate a method of fairly allocating the costs associated with an early system rebuild.

The AESO is evaluating the treatment of salvage and early replacement of existing transmission facilities as part of an update to the economic evaluation guidelines for interconnection projects. The AESO generally agrees with the principles stated in the recommendation but is mindful of possible limitations to its authority to determine costs as system- or customer-related under those principles. The AESO is currently working with TFOs to review and refine an interim approach to ensure fairness, transparency, and consistency with legislation while avoiding undue administrative burden, before seeking broader stakeholder comments.

The AESO expects this matter to be addressed outside the tariff consultation process.

4 Use an inflation factor that is representative of the Alberta market place, and incorporate a mechanism to adjust the contribution formula to account for regulatory lag.

This recommendation included two specific components: automatic escalation of investment levels in the AESO contribution policy and use of an established index that is reflective of transmission costs in Alberta.

The AESO plans to propose an investment level escalation methodology as part of its 2010 tariff application. The AESO currently considers that investment levels could be increased in accordance with an escalation factor as part of annual rates update applications filed in years between general tariff applications.

The AESO is evaluating escalation indices as part of its POD cost function update. The AESO intends to discuss criteria for selection of an appropriate index, as well as an appropriate investment level escalation methodology, as part of the POD Cost Function working group.

5 Align the timing of prepaid O & M with costs, and apply prepaid O & M exclusively to facilities in excess of standard.

The matter of adding O&M charges to interconnection project costs is the subject of a review and variance application filed by the Alberta Direct Connect Consumers Association and other parties, currently before the Alberta Utilities Commission (“AUC”) as Application No. 1566390 and Proceeding ID 108. Reply argument in the proceeding was filed on April 14, 2009. The AESO expects that a decision will be issued prior to the filing of its 2010 tariff application, and will incorporate the findings of the AUC in its application at that time. The AESO does not anticipate discussing this matter in any tariff consultation working groups.

If necessary and appropriate, the AESO will further consider the AltaLink consultation recommendation on O&M charges in the context of the decision.

6 Provide flexibility on the timing of contribution payments, and provide choices for customers transitioning between tariffs.

This recommendation included two specific components: definition of book-end dates between which a customer could choose whether a former or current contribution policy was applicable to an interconnection, and development of a procedure to update “standard facilities” cost estimates when project cost estimates are updated.

At this time the AESO does not intend to establish a date range between which a customer would have a choice of contribution policy. The AESO expects that any start date established would create concerns similar to those that the recommendation was intended to address — namely, delays and schedule changes by customers such that a specific contribution policy applies to their projects. Setting a different date will not prevent such changes, but will simply change the specific customers potentially affected. As well, the AESO considers that the consistency between rates and contribution policy achieved in its current tariff would be significantly diminished if former contribution policies could be applied in conjunction with current rates. The AESO does not anticipate discussing this matter in any tariff consultation working groups.

When a project cost estimate is subject to a material change, the AESO’s current practice is to update the “standard facilities” cost estimate at the same time. That update is usually based on a pro rata adjustment as in the AltaLink consultation recommendation, although a more specific adjustment may be applied if the cost estimate change is not similarly attributable to both the “standard facilities” and actual project costs. The AESO does not anticipate discussing this matter in any tariff consultation working groups.

7 Provide the choice for the contribution payment to be a facilities charge rather than a balance sheet transaction.

The AESO is investigating including provisions for an amortized customer contribution option in its 2010 tariff application. This matter will be further discussed in the Customer Contribution Provisions working group.

8 Provide new customers with both generation and load at the site, the opportunity to be “load first” in determination of their contribution payment.

The AESO considers that a “load first” approach to determining DTS customer contributions at dual-use sites was fully reviewed as part of its 2006 tariff application. The Alberta Energy and Utilities Board (at that time the predecessor to the AUC) rejected the load first approach in Decision 2005-096 (pages 60-62) in favour of the continued use of a dual-use formula approach. The dual-use formula approach is currently implemented in Article 9 of the AESO’s approved terms and conditions of service. The AESO does not anticipate discussing this matter in any tariff consultation working groups.

The AESO hopes the above comments are useful to stakeholders in understanding the AESO’s views on the recommendations provided from AltaLink’s stakeholder consultation process. The AESO appreciates the involvement of stakeholders in the AltaLink process, and considers the recommendations to be valuable input into the development of the 2010 tariff application.

As already noted, the information provided by AltaLink to the AESO, as well as all other information related to the AESO’s 2010 tariff consultation, is available on the AESO’s website at www.aeso.ca by following the path Tariff ► Current Consultation ► 2010 Tariff.

If you have any comments or questions on the AESO’s response to the AltaLink consultation recommendations or the AESO’s tariff application, please contact me at 403-539-2465 or john.martin@aeso.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO