Amortized Customer Contribution Option and Other Contribution Provisions Working Group

TransCanada Rider I Proposal

At the Customer Contributions Working Group meeting on June 10, 2009, the AESO committed to compile and distribute the Information filed by TransCanada Energy in AltaLink’s 2009-2010 Transmission Facility Owner Tariff Application proceeding, relating to TransCanada’s proposal for an amortized customer contribution Rider I.

That information is attached, and includes the following:

(a) TransCanada Energy evidence, filed on March 6, 2009;

(b) TransCanada Energy responses to ASBG/PGA information requests (excluding ASBG/PGA-TCE 7 which simply provided a copy of Article 9 of the AESO’s terms and conditions), filed on March 27, 2009;

(c) TransCanada Energy oral evidence of Vince Kostesky and Dan Levson from pages 1499-1593 of Volume 9 of the hearing transcripts, dated April 30, 2009;

(d) TransCanada Energy response to undertaking at transcript page 1576 to provide the three scenarios discussed at pages 1553 and 1554, filed as Exhibit 271 on May 6, 2009;

(e) TransCanada Energy responses to AltaLink questions on Exhibit 271, filed on May 20, 2009; and


Please review this information before the next working group meeting, if possible.
Alberta Utilities Commission

IN THE MATTER OF the Alberta Utilities Commission Act, S.A. 2007, c. A-37.2,

IN THE MATTER OF the Electric Utilities Act, S.A. 2003 c. E-5.1

AND IN THE MATTER OF an application by AltaLink Management Ltd. for the approval of its revenue requirement, deferral and reserve accounts for the period commencing January 1, 2009 to December 31, 2010.

Evidence

of

TransCanada Energy Ltd.

March 6, 2009

Alberta Utilities Commission
I. INTRODUCTION

In this filing, TransCanada Energy Ltd. ("TransCanada") provides evidence and recommendations addressing AltaLink Management Ltd.’s ("AltaLink") proposed Management Fee, which is one component of AltaLink’s revenue requirement being applied for its 2009-2010 General Tariff Application ("GTA"). TransCanada’s evidence will demonstrate that AltaLink’s concerns respecting the need for a Management Fee can be better resolved by the addition of a Rider to the AESO Tariff in the AESO 2010 General Tariff Application ("A宪 SO 2010 GTA"). The specific details of an AESO Rider that would address AltaLink’s concerns are described in this evidence.

II. PROPOSED ALTALINK MANAGEMENT FEE

1. Introduction

In Section 15 of its Application, AltaLink advocates for a new Management Fee on customer contributions as a part of its revenue requirement. AltaLink states that it is concerned about the substantial and growing amount of Contributions in Aid of Construction ("CIAC") from customers. These CIAC amounts do not attract a return on investment.

TransCanada recommends that AltaLink should be directed to participate in the AESO 2010 GTA or a Commission-directed process where the investment levels, amortization of customer contribution, management fees and other mechanisms raised in the AltaLink Management Fee evidence can be better resolved than in this GTA.

2. Discussion

AltaLink has requested a Management Fee to compensate it for assets that do not earn a return on investment due to offsetting customer contributions. This Management Fee is a new charge, approval of which could set a precedent for AltaLink and for the other TFOs in Alberta. ATCO Electric Ltd. ("AE") has also requested approval of a management fee in its 2009-2010 GTA, The Management Fee proposed by AltaLink is based on the return on equity of the capital that would have been required if the Customer Contribution had not been provided by the customer.
The details of the Management Fee are shown in Table 4 below.

### Table 4: Proposed Management Fee

<table>
<thead>
<tr>
<th>AltaLink Transmission Costs</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Proposed Management Fee (Pre-Tax)</td>
<td>$5,473,000</td>
<td>$7,004,000</td>
</tr>
<tr>
<td>2 Projected Annual Revenue (before Management Fee)</td>
<td>$244,934,000</td>
<td>$284,065,000</td>
</tr>
<tr>
<td>3 AltaLink Management Fee (%)</td>
<td>2.23%</td>
<td>2.47%</td>
</tr>
</tbody>
</table>

The Management Fees proposed by AltaLink and AE have a substantial impact on customers. In 2010, the combined Management Fees proposed by AltaLink and AE are estimated to be over $12 million for just two of the six TFOS. As described below, TransCanada has developed an alternative that addresses the concerns of AltaLink with less impact on customers.

### 3. Amortized Customer Contribution Rider

TransCanada is not persuaded that the implementation of a Management Fee is the appropriate way to resolve this matter in the long term. Rather, TransCanada believes that it would be preferable to implement an Amortized Customer Contribution Rider (“Rider I”) in the AESO’s 2010 GTA or in an early module of that GTA with AUC approval. TransCanada believes Rider I would better address the concerns raised by AltaLink regarding its growing CIAC amounts and the consequent reduction of capital investment upon which AltaLink can earn a return.

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1. AltaLink 2009 2010 GTA, Section 15, pages 36 and 37.
2. AltaLink 2009 2010 GTA, Section 15, page 37, Table 3
3. An argument could be made that the Management Fees could be charged to all ratepayers, but for this discussion, it has been assumed that customers who triggered a customer contribution and a corresponding Management Fee will pay the Management Fee through an AESO rate mechanism. If Management Fees are not attributed to individual AESO customers, then all AESO ratepayers will be negatively affected by the proposed Management Fee.
4. The estimate was calculated by adding AltaLink’s proposed Management Fee of $7,004,000 and ATCO Electric’s proposed Management Fee of $3,906,000.
Rider I, including the attached sample rate schedule in Appendix A, has been provided to illustrate the overall simplicity of this solution and its ability to address TFO concerns. In essence, the purpose of Rider I would be to restructure the customer contribution so that customer-related assets that the TFO constructs are included in rate base at cost. In order to keep other ratepayers whole, the customer would make payments through Rider I that would compensate the TFO for the customer-related asset it constructed, including a rate of return. The design of Rider I ensures that those costs are charged to the relevant customer and not to all ratepayers.

The specific details of Rider I and its potential advantages to customers and TFOs are as follows.

Characteristics of Rider I

1. The Amortization Rate in Rider I includes:
   (a) a monthly payment that returns to the TFO the cost associated with the customer-related facilities not covered by the AESO investment policy (“Customer Contribution”) and that would be calculated by dividing the cost by the amortization period.
   (b) a monthly payment of the return on any unamortized balances that would be calculated based on the TFO weighted average cost of capital (“WACC”), including the appropriate income taxes as approved by the AUC for the relevant period for the TFO that owns the asset.
   (c) Both payments in (a) and (b) would be flowed through Rider I to the TFO by the AESO.

2. Rider I would amortize the Customer Contribution over an amortization period based on the contract term for the Customer-related assets for Demand Transmission Service (“DTS”) customers. For Supply Transmission Service (“STS”) customers, the term would be at least 10 years but no longer than 20 years.

3. Rider I payments would be based on the WACC for each TFO and would therefore vary according to the WACC for the TFO that owns the asset providing service to the customer.
4. If the AUC had not rendered a decision regarding WACC for a particular TFO for the time
   period that Rider I were to be applied, the previously approved WACC would be used on an
   interim basis. The final approved WACC for the relevant time period would be used to
   adjust the Rider I payments to a final amount, with the difference being refunded or charged
   to the customer. Any components of the WACC that are handled in deferral accounts,
   following approval of the AUC, would be adjusted in a similar fashion.

5. Rider I would only be available for creditworthy customers as determined by the AESO in
   their sole discretion. Security, such as a letter of credit, would be held by the AESO.

6. Customers would have the option to pay the Customer Contribution or could apply for a
   Rider I repayment of the Customer Contribution at the time of interconnection.

7. Rider I would be available for all AESO Customers who meet the qualifications for Rider I,
   such as STS customers and DTS customers, including Distribution Utilities (“DISCOs”).

8. From a default perspective, the assets covered by Customer Contribution payments would
   be treated in the same manner as assets covered by the AESO investment policy.

9. Unamortized balances of existing contributions could be converted to Rider I on a one time
   basis at some point after Rider I is approved and with the approval of the TFO and AESO at
   those parties’ sole discretion.

10. Contributions for Prepaid Operations and Maintenance charges would be treated in the same
    way as a customer contribution for capital costs and would be subject to Decision 2007-106,
    noting that the treatment of Prepaid Operations and Maintenance is currently before the
    Commission as a Review and Variance of Decision 2007-106.

11. Customer contributions to be refunded according to Article 9.9 of the AESO Terms and
    Conditions would reflect the amortization of the customer contribution achieved by Rider I
    and would be the basis of determining the unamortized contribution if required for an
    adjustment.
Potential Advantages to Customers/Ratepayers

1. Customers would not have to pay the proposed Management Fee as currently structured, which in 2010 is estimated to be over $12 million for AltaLink and AE, just two of the six TFOS. The proposed Management Fee would apply to everyone who has a customer contribution, including DTS customers served by DISCOs, any direct connect DTS customers who have customer contributions, and STS customers with customer contributions for their transmission interconnection costs. While DISCOs flow through transmission charges to their downstream customers, it is expected that DISCOs will also want to minimize costs that impact their customers to the extent that they can.

2. Since Rider I is only available to creditworthy customers and creditworthiness would be determined in the sole discretion of the AESO, the likelihood of default is substantially reduced. Customers who lack creditworthiness can provide security through different mechanisms, such as a letter of credit from a financial institution. The intent of Rider I is that there be a very low probability of impact on the costs paid by other AESO customers when an AESO customer passes the creditworthiness test and exercises the Rider I option. In the rare event that an AESO customer defaults on its payments, there is a high likelihood that whoever ends up owning the asset in the longer term will still need power to operate the facility supplied by the point of delivery. That new entity would continue the payments of the previous owner. Points of delivery on the transmission system are typically large and either supply towns or cities through the DISCOs or larger industrial facilities such as gas plants, refineries and compressor stations. While the owners of these facilities may experience financial difficulties, the facilities themselves are usually acquired by other companies who continue to use the facilities which in turn require electricity to operate.

3. For AESO customers who have a higher cost of capital than the TFOs, there will be a saving in the customer’s cost of capital.

4. For AESO customers who want to minimize their capital requirements, Rider I provides an option for monthly payments.

5 The saving was calculated by adding AltaLink’s proposed Management Fee of $7,004,000 and ATCO Electric’s proposed Management Fee of $3,906,000.
5. The AESO could review Rider I in its next GTA and other residual issues could be dealt with at that time. It is expected that other customers will be minimally affected by this option.

6. A single AESO rider approach will provide regulatory efficiency and consistency throughout Alberta.

Potential Advantages to TFOs

1. A TFO will have the opportunity to avoid the reduction to its rate base arising from customer contributions and will have the ability to earn a return on the total investment in assets devoted to utility service.

2. As noted above under item 9 of “Characteristics of Rider I”, there could be a one-time option to convert unamortized balances of existing contributions when Rider I comes into effect. The TFO rate base could be increased accordingly if AESO customers who have historically been required to make a contribution have the option of converting the unamortized portions of their customer contributions to Rider I.

3. In acquiring the above benefits, TFOs will not be required to assume any additional risk under the Rider I proposal. Since Rider I is structured as an AESO Rider, the risk of default will be treated the same as other transmission system assets.

4. The impact of the Rider I approach can be reviewed at the next GTA of each TFO. If concerns should arise that Rider I is not working as intended, there will be an opportunity for the TFO to pursue a further remedy in the matter.

5. The AESO will also review Rider I in the AESO GTA following the AESO 2010 GTA and residual issues, if any, can be dealt with at that time.
4. Industry and AESO Perspective

AltaLink led a stakeholder working group\(^6\) with presentations to other attendees\(^7\) during 2008 to review the AESO Customer Contribution Policy. The recommendations from that initiative were provided to the AESO on November 21, 2008. Recommendation 7 was to provide “the choice for the contribution payment to be a facilities charge rather than a balance sheet transaction.”\(^8\)

Recommendation 7 included the following elaboration:

The Working Group recommends that the AESO Investment Policy should include an option for the contribution to be set up as an AESO tariff payment determined by the TFO cost of service method including income tax, applied over the DTS/STS contract term. The contribution structured as an AESO tariff payment would be made available to any creditworthy customer. The attractiveness of the AESO Tariff Option to the customer will depend on the customer’s IRR and other factors including the customer’s election for treatment of the transaction on their balance sheet. The customer/POD specific AESO tariff Payment Option, or what has been referred to as a Facilities Charge Agreement, is not a new concept and has been applied successfully to specific PODs in the past. The adoption of the aforementioned eliminates the need for [a] customer to deploy large amounts of capital for facilities that they will not own and operate.\(^9\)

Only one participant in the working group indicated opposition to the proposal.\(^10\)

After reviewing the recommendations, the AESO included six of the eight recommendations, including recommendation 7, in its stakeholder consultation process for its 2010 GTA.\(^11\) While the AESO’s stakeholder consultation process is not complete, based upon the responses of participants in the working group, TransCanada expects significant support for such a proposal in the AESO 2010 GTA.

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\(^7\) Attendees included representatives from AFREA, AUMA, AUC, City of Lethbridge/Red Deer, UCA and Stephen Johnson Chartered Accountants.
\(^8\) Recommendations for Change – AESO GTA – Customer Contribution Policy submitted to AESO on November 21, 2008, page 1
\(^9\) Ibid, pages 10-11
\(^10\) Ibid, Appendix B-6
\(^11\) AESO letter to AESO Stakeholders, dated February 5, 2009, page 1 of 6 of AESO Preliminary List
5. Concluding Comments

In summary, TransCanada believes that the Rider I solution represents a better way to resolve the concerns identified by AltaLink as the reason a Management Fee is required. As a result, TransCanada submits that the concerns raised by AltaLink in respect of its proposed Management Fee would be better dealt with in the AESO 2010 GTA or other Commission-directed process.
APPENDIX A – Amortized Customer Contribution Rider

Alberta Electric System Operator
AESO 2007 Tariff
Effective November 1, 2008
[Unapproved] Rate Schedules and Riders

1 Rider I Amortized Customer Contribution Rider

2 Purpose: To convert a lump-sum Customer Contribution to a monthly payment

3 Applicable to: Customers requesting conversion to a monthly payment who, in the sole
discretion of the AESO, are creditworthy or able to meet AESO securitization
requirements.

4 Effective: The rider is effective for all billing periods from January 1, 2009 onward.

5 Rate: The Amortization Rate includes:

8 (a) a monthly payment of the return of the original Customer Contribution
and will be calculated by dividing the original Customer Contribution by
the amortization period.

11 (b) a monthly payment of the return on any unamortized balances and will be
calculated based on the TFO weighted average cost of capital (“WACC”)approved by the Alberta Utilities Commission (“AUC”) for the relevant
period for the TFO that owns the asset.

15 The TFO WACC will be based on the WACC most recently approved by the
AUC for the relevant period for the TFO that owns the asset. If a WACC is
approved after the billing period that is applicable to the billing period, the
difference in rate for each customer will be adjusted through a deferral account.

19 The amortization period will be based on the contract term for investable assets.

20 Terms:

21 The Terms and Conditions form part of this Rate Schedule.
ASBG/PGA-TCE 1

**Topic:** Proposed AESO Rider I

**Reference:** Page 3 of 8 and 7 of 8

**Preamble:** 2. Rider I would amortize the Customer Contribution over an amortization period based on the contract term for the Customer-related assets for Demand Transmission Service ("DTS") customers. For Supply Transmission Service ("STS") customers, the term would be at least 10 years but no longer than 20 years.

AltaLink led a stakeholder working group with presentations to other attendees during 2008 to review the AESO Customer Contribution Policy.

**Request:**

(a) For customers serviced by the AML TFO currently what is the average percentage of the interconnection investment for DTS customers that is covered by a Customer Contribution for this class of customer?

(b) Currently the upfront Customer Contribution for STS customers covers the entire interconnection investment for this class of customer. Does the Rider I proposal effectively release the STS customers obligation for a one time upfront Customer Contribution in the amount of their total interconnection cost to a potential annual amortization payment of up to 20 years.

(c) With DTS customers responsible for all transmission costs why should STS customers be availed the same amortization option as DTS customers.

**Response:**

(a) TransCanada does not have access to this customer specific information of AltaLink Management Ltd. ("AltaLink"). TransCanada’s intention in advancing the Rider I proposal is to offer an alternative to the proposed AltaLink Management Fee to illustrate for the Commission another potential solution to the concern raised by AltaLink.
Rider I is not being advanced for approval in this proceeding. Specific design features of the Rider I alternative will be reviewed in the AESO 2010 General Tariff Application (“GTA”), along with opportunities to obtain supporting factual information such as that requested in this question. In the present proceeding, TransCanada will provide as much detail as practical under the circumstances in relation to the alternative, recognizing that the features and details of Rider I will be dealt with in the AESO 2010 GTA. This limitation applies generally to all of the responses to ASBG/PGA information requests.

(b) The STS customer is not necessarily released from its obligation to make a one time upfront Customer Contribution. In the Rider I proposal, STS customers will have the option of either making a one time upfront Customer Contribution or applying for Rider I treatment. If a STS customer applies for Rider I treatment, the AESO, in its sole discretion, will consider whether the STS customer is sufficiently creditworthy to make Rider I payments. If the STS customer is not deemed creditworthy, then the STS customer will be required to make an upfront Customer Contribution.

(c) AltaLink’s concerns regarding owning assets for which it is unable to obtain a return is applicable to both DTS and STS customers.

Further, DTS customers are not responsible for all transmission costs. It should be noted that:

- STS customers pay 100% of the cost of facilities required to interconnect with the AIES and meet its STS Capacity requirements.\(^1\)
- PPA generation is not required to make a Customer Contribution, but currently pays a monthly charge for interconnection for Regulated Generating Unit Connection Costs.
- STS customers are also responsible for almost all transmission losses.
- STS customers are required to pay any System Contribution cost that may be required under Article 9.11(b) of the AESO Terms and Conditions. However, TransCanada notes that Rider I is not intended to apply to System Contributions.

As a result of the foregoing, STS customers should be availed the same amortization option as DTS customers. Furthermore, the Rider I proposal places STS customers who meet the AESO’s creditworthiness test on a more level playing field with PPA generation.

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\(^1\) AESO Terms and Conditions, Article 9.11 (a). Contributions may be modified where a facility is also used for DTS customer loads: Articles 9.3, 9.5 and 9.6.
ASBG/PGA-TCE 2

**Topic:** Proposed AESO Rider I

**Reference:** Pages 3 and 4 of 8

**Preamble:**
3. Rider I payments would be based on the WACC for each TFO and would therefore vary according to the WACC for the TFO that owns the asset providing service to the customer.

4. If the AUC had not rendered a decision regarding WACC for a particular TFO for the time period that Rider I were to be applied, the previously approved WACC would be used on an interim basis. The final approved WACC for the relevant time period would be used to adjust the Rider I payments to a final amount, with the difference being refunded or charged to the customer. Any components of the WACC that are handled in deferral accounts, following approval of the AUC, would be adjusted in a similar fashion.

**Request:**

(a) Where customers are required to provide a customer contribution for interconnection please discuss whether the AESO would have to calculate a Rider I payment on a monthly basis for each DTS transmission direct connect customer, each DTS Disco customer by TFO POD, and each STS customer and also recognize the specific contract term for each of these customers.

(b) Please discuss the proposed Rider I impact on the AESO deferral account and reconciliation process if the Rider I calculations are customer specific.

(c) Please compare and discuss the administrative complexity of the proposed AESO Rider I methodology with the existing AESO Customer Contribution policy requirements.

**Response:**

(a) Please refer to the response to ASBG/PGA-TCE 1(a).
The calculations described would be required for DTS transmission direct-connect customers to the extent they have a Customer Contribution, which many do not. The same applies to DTS DISCO customers for those TFO PODs that have a Customer Contribution. Again, many do not. Most, if not all, STS customers other than PPA Generators would have a Customer Contribution with calculations as described.

(b) and (c):

Subject to its response to ASBG/PGA-TCE 1(a), TransCanada anticipates there will be some additional administration required by the Rider I as compared to the existing administration of the AESO Customer Contribution policy, but TransCanada does not expect it to be significant for either the AESO or TFOs. TransCanada believes the more appropriate comparison is with the administration that would be involved in the implementing the proposed Management Fee. Firstly, should the Management Fee be approved, TransCanada anticipates that there would be a significant regulatory burden associated with how the Management Fee will be allocated among AESO customers and among DISCO customers for costs charged to each DISCO. In addition, if the Management Fee is assigned to specific customers, then there will be a similar level of incremental administration as for Rider I.

TransCanada understands that the Rider I proposal would first require the AESO to perform a creditworthiness test for DTS or STS customers requesting Rider I treatment. The AESO is already conducting such tests as a part of its interconnection process, so the incremental cost for this step should be minimal.

Second, if the applicant passes the creditworthiness test, then the AESO would need to convert the Customer Contribution into a monthly payment. In the case where the Weighted Average Cost of Capital (“WACC”) for the TFO is not yet finalized, the AESO would use the previously-approved WACC to determine Rider I charges until the final WACC is approved by the Commission. Once a WACC is determined, the differences can be adjusted in the customer’s bill for Rider I. While no further adjustments may be required, if there are any residual differences arising from Deferral Account Adjustments, they can be adjusted in the Deferral Account Adjustment proceeding. The Deferral Account process already takes into account every POD and POS in the province and must make adjustments on a customer-specific basis. Again, TransCanada does not anticipate that the administration required would be significantly different than that required for the Management Fee, particularly if the Management Fee is administered on an individual customer basis.
From the TFO perspective, there will be a small increase in administrative burden to manage the Rider I proposal as compared with the status quo because TFOs will be required to manage monthly payments rather than a single contribution payment.
ASBG/PGA-TCE 3

Topic: Proposed AESO Rider I

Reference: Page 4 of 8

Preamble: 5. Rider I would only be available for creditworthy customers as determined by the AESO in their sole discretion. Security, such as a letter of credit, would be held by the AESO.

Request:

(a) Please compare and discuss the risk of an upfront DTS Customer Contribution and annual payments for contract terms of 20 years and greater.

(b) Please compare and discuss the risk of an upfront STS Customer Contribution for 100% of transmission interconnection costs and annual payments for contract terms of 20 years.

(c) Please discuss what other types of security were considered other than a letter of credit.

(d) Please discuss how the incremental costs associated with reviewing and monitoring these security arrangements would be accounted for and recovered from DTS and STS customers.

Response:

(a) and (b):

Please refer to the response to ASBG/PGA-TCE 1(a).

TransCanada anticipates that there is minimal risk of a default on payments by either DTS or STS customers that would result in other customers bearing any material cost. The reasons for this conclusion will be elaborated below. To place this risk in context, it should be compared with the AltaLink Management Fee proposal that would cost, if approved, $7 million in 2010. Also, the Management
Fee will increase as Customer Contributions increase. In this context, TransCanada believes the savings in annual costs that can be achieved through Rider I outweigh the risk of default for the system as a whole.

There is currently minimal risk of default in relation to either DTS or STS Customer Contributions that are paid prior to commencement of construction of transmission facilities.\(^1\). TransCanada believes that there is also a minimal risk of default by DTS and STS customers under Rider I for the following reasons:

1. Rider I is designed so that only creditworthy DTS or STS customers can convert their Customer Contribution into a Rider I monthly payment. TransCanada recommends that at least the same level of scrutiny applied to customer creditworthiness per AESO Terms and Conditions Article 15.1 should be applied to Customer Contributions to be converted to Rider I payments.

2. Loads supplied at the transmission level tend to be very large, usually at least 5 MW.\(^2\) If the facilities are required to serve towns or rural areas with large amounts of residential, commercial and small industrial customers, a DISCO is involved and there is almost no risk that the DISCO will default on its payments for those facilities. Even if the DISCO did go bankrupt, the DISCO assets would be taken over by another utility that would be in a position to pay for the transmission assets. Similarly, facilities to serve large industrial loads are typically the result of very large investments where the electricity supply is only one minority component of their cost structure. In most circumstances, were a DTS customer to encounter financial difficulty, TransCanada would expect the industrial load to be taken over by a purchaser who will continue to make payments to obtain DTS service.

3. STS contracts are for a range of generation facilities for which the cost of transmission is small compared to the cost of the facility. Due to the value of these plants in the supply of energy, these plants are likely to be purchased and would continue to operate in the event of financial difficulties of an owner.

4. Should all these mitigating factors fail, there are still some further mitigating factors that reduce the exposure to other customers. First, to the extent that the customer defaults on its payments part way through the contract term, the payments prior to the default event have reduced the amount of stranded cost exposure to other customers. Second, a portion of the value of the facilities can be sold or moved to useful service elsewhere. For example, transformers are a significant portion of the cost of substations, have long physical lives

\(^1\) Note that DTS contract terms are 5 to 20 years per AESO T&Cs, Article 9.6 (b).

\(^2\) Any smaller than this size and the load will likely be supplied from the Distribution System.
and can almost always be reused or sold, often at a price near or even higher than the original cost.

(c) TransCanada did not consider any types of security beyond those included as a part of the AESO’s Credit Requirements as described in AESO Terms and Conditions Article 15.1.

(d) The AESO already must monitor the creditworthiness of DTS and STS customers as a part of AESO Terms and Conditions Article 15.1. Therefore, the incremental cost to review and monitor security arrangements is expected to be minimal. TransCanada does not propose any change in how these costs are accounted for at the present time.
ASBG/PGA-TCE 4

**Topic:** Proposed AESO Rider I

**Reference:** Page 4 of 8

**Preamble:** 7. Rider I would be available for all AESO Customers who meet the qualifications for Rider I, such as STS customers and DTS customers, including Distribution Utilities (“DISCOs”).

**Request:**

If the STS contract term is limited to 20 years could a dual-use STS/DTS customer have different contract terms for STS and DTS customer contributions?

**Response:**

Yes. As long as the Customer Contribution amounts assigned to the STS customer and DTS customer are appropriately allocated, there is no need for the contract terms to be the same.
ASBG/PGA-TCE 5

Topic: Proposed AESO Rider I

Reference: Page 4 of 8

Preamble: 8. From a default perspective, the assets covered by Customer Contribution payments would be treated in the same manner as assets covered by the AESO investment policy.

Request:

(a) Please describe the current treatment of assets covered by Customer Contribution payments for a DTS customer on the default of such customer and provide an illustrative example. With the Rider I methodology what is proposed for the recovery of the Customer Contribution obligation on the DTS customer default.

(b) Please describe the treatment of assets covered by Customer Contribution payments for a STS customer on the default of such customer and provide an illustrative example. With the Rider I methodology what is proposed for the recovery of the Customer Contribution obligation on the STS customer default and discuss the impact of the obligation being 100% of the interconnection cost.

Response:

(a) and (b):

Please refer to the response to ASBG/PGA-TCE 1(a).

There is minimal default risk in the current treatment of assets covered by Customer Contribution payments for DTS and STS customers since these payments are required before the start of construction of the transmission facilities¹ and financial security requirements of the AESO are in place.² Regarding the Rider I methodology, please refer to the response to ASBG/PGA-TCE 3 (a). In either case, in the rare cases where defaults occur, any

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¹ Refer to AESO Terms and Conditions, Article 9.2.
² Refer to AESO Terms and Conditions, Article 15.1.
stranded costs would generally be recovered through the TFO revenue requirement submitted to the AESO for recovery through AESO rates.
ASBG/PGA-TCE 6

Topic: Proposed AESO Rider I

Reference: Page 4 of 8

Preamble: 9. Unamortized balances of existing contributions could be converted to Rider I on a one time basis at some point after Rider I is approved and with the approval of the TFO and AESO at those parties’ sole discretion.

Request:

(a) Please describe the current accounting processes for Customer Contributions by the AESO and TFOs and whether such Customer Contributions and amortizations are maintained on a customer specific basis for both DTS and STS customers.

(b) In accordance with the proposed Rider I methodology and monthly amortizations please describe any required changes to accounting processes for both the AESO and the TFOs to accommodate the methodology.

Response:

(a) Please refer to the response to ASBG/PGA-TCE 1(a). TransCanada is unable to speak to accounting processes at the AESO and TFOs. TransCanada understands that these contributions are maintained on a customer specific basis by both the AESO and TFO.

(b) Please refer to the response to (c) above.
Potential benefits to customers/ratepayers

1. Customers would not have to pay the proposed Management Fee as currently structured, which in 2010 is estimated to be over $12 million for AltaLink and AE, just two of the six TFOS. The proposed Management Fee would apply to everyone who has a customer contribution, including DTS customers served by DISCOs, any direct connect DTS customers who have customer contributions, and STS customers with customer contributions for their transmission interconnection costs.

Request:

(a) Please describe any benefits or potential harm to existing or future DTS customers that are not required to provide any Customer Contributions.

(b) Would the largest benefit be to existing and future STS customers that are responsible for 100% of their transmission interconnection costs?

Response:

(a) The effects of Rider I must be compared to those arising from the Management Fee proposal, not the status quo. The impact of the Management Fees on existing or future DTS customers will depend on whether the Fees are allocated to all AESO customers or separated out and assigned to the AESO customers that paid the Customer Contribution and whether the Management Fee will be allocated to STS customers or whether those costs will flow to DTS customers pursuant to s. 47 of the Transmission Regulation. If the Management Fee is allocated to all AESO customers (whether solely DTS customers or DTS and STS customers), all DTS customers will be required to pay their allocated share of the Management Fee. In this case, the Rider I proposal will benefit DTS customers. If the Management Fee is assigned on a customer-specific basis, then DTS customers,
including direct-connect customers, that are not required to provide any Customer Contributions would not pay charges related to the Management Fee on Customer Contributions from a DTS customer, but may nevertheless be required to pay a portion of the Management Fee earned on Customer Contributions from an STS customer. Therefore, DTS customers will either be better off or neutral if Rider I were implemented, other than the very low probability of a long-term default on payment of a Customer Contribution. Refer also to the response to ASBG/PGA-TCE 3.

If the Commission determines that the Management Fee is to be assigned to the AESO customer paying the Customer Contribution, DISCO customers, including ASBG/PGA customers, may end up paying a portion of the Management Fee. The reason is that the Management Fee for specific DISCO interconnections may become a part of the DISCO revenue requirement and could be allocated to all DISCO customers. In this case, the benefit of the Rider I proposal is the avoidance of the DISCO share of the Management Fee.

(b) TransCanada cannot provide a general statement on whether the largest benefit of Rider I will be to existing and future STS customers. The most important point to note is that with the risk of default reduced to a very low level through AESO creditworthiness requirements and other practical considerations described in ASBG/PGA-TCE 3, then all DTS and STS customers are either better off or neutral under the Rider I proposal compared to the AltaLink Management Fee proposal.

With respect to STS customers specifically, a large amount of existing STS customer supply is under PPA generation that already have the benefit of making monthly payments for interconnection costs through the Regulated Generating Unit Connection Costs payments (i.e. no customer contribution was required). For other STS customers, the benefits of the Rider I proposal will depend on several factors including the cost of their interconnection, what portion of that cost remains unamortized, their need to reduce capital commitments and their cost of capital. Therefore, the benefits for the remaining STS customers could vary from no benefit to a significant benefit.
Topic: Proposed AESO Rider I

Reference: Page 5 of 8

Preamble: In the rare event that an AESO customer defaults on its payments, there is a high likelihood that whoever ends up owning the asset in the longer term will still need power to operate the facility supplied by the point of delivery.

Request:

(a) Please describe the consequences to other AESO customers if a STS customer defaults on its payments.

(b) Please address the issue of potential customer defaults in terms of the present economic downturn in Alberta and the rest of North America.

Response:

(a) Please refer to the responses to ASBG/PGA-TCE 3 and ASBG/PGA-TCE 5.

(b) Since Rider I is only available to creditworthy customers, it is expected that the AESO will decline a request for Rider I treatment if they are concerned about the long-term economic viability of a given customer. Please refer to the response to ASBG/PGA-TCE 3.
ASBG/PGA-TCE 10

Topic: Proposed AESO Rider I

Reference: Page 6 of 8

Preamble: 6. A single AESO rider approach will provide regulatory efficiency and consistency throughout Alberta.

Request:

Please describe the regulatory efficiencies when it is understood that a new additional AESO rider is proposed that would be customer specific in terms of costs and contract term and would be subject to the AESO deferral account and reconciliation process.

Response:

Please refer to the response to ASBG/PGA-TCE 1(a).

The comment in the Preamble was made in the context of a comparison of Rider I to the proposed Management Fee.

Both ATCO Electric and AltaLink have applied separately for Management Fees as part of their 2009-2010 GTAs, and so have already required fairly significant regulatory resources of the applicant, AUC and interveners to address the request. Such requirements would also be the case for the other four TFOs, assuming they also decided to apply for a Management Fee.

While TransCanada recognizes that an additional regulatory proceeding will be required to approve and implement Rider I, it is preferable to multiple separate regulatory applications in which the concern raised by the TFOs will be dealt with on a piecemeal basis. Rider I would deal with the TFO concerns in a single proceeding that would be applicable to all TFOs and result in the implementation of a consistent solution across the province.

In addition, if the the Management Fee is approved, this decision will trigger regulatory debates in future AESO GTAs to decide which customers will have to pay the
Management Fee. Similar issues will arise in the DISCO hearings to allocate these charges from the AESO in the DISCO rate design process. TransCanada understands that Rider I is a more generally acceptable solution within the industry, as it is the result of the AltaLink working group deliberations reflected in the response to AUC-TCE 1.

With respect to deferral accounts and reconciliation, it should be noted that the AESO already deals with customers on an individual basis in deferral account proceedings.
ASBG/PGA-TCE 11

Topic: Proposed AESO Rider I

Reference: Page 6 of 8

Preamble: 3. In acquiring the above benefits, TFOs will not be required to assume any additional risk under the Rider I proposal. Since Rider I is structured as an AESO Rider, the risk of default will be treated the same as other transmission system assets.

Request:

(a) If a specific DTS customer serviced by a TFO is in default please describe the treatment and impact on the TFO, other customers of the TFO, the AESO and other TFOs in the province. Please describe what changed impacts would occur if the proposed Rider I methodology was in place.

(b) If a specific STS customer serviced by a TFO is in default please describe the treatment and impact on the TFO, other customers of the TFO, the AESO and other TFOs in the province. Please describe what changed impacts would occur if the proposed Rider I methodology was in place.

Response:

(a) and (b):

The request requires information regarding AESO and TFO accounting and other practices that goes beyond TransCanada’s firsthand knowledge. For a general discussion of DTS and STS customer default, please refer to the responses to ASBG/PGA-TCE 3 and ASBG/PGA-TCE 5.
ASBG/PGA-TCE 12

Topic: Proposed AESO Rider I

Reference: Industry and AESO perspective, page 7 of 8

Preamble: “The customer/POD specific AESO tariff Payment Option, or what has been referred to as a Facilities Charge Agreement, is not a new concept and has been applied successfully to specific PODs in the past. The adoption of the aforementioned eliminates the need for [a] customer to deploy large amounts of capital for facilities that they will not own and operate.”

ASBG/PGA note the prime benefit of the proposal appears to be that DTS and STS customers that are currently required to provide an upfront Customer Contribution will not be required to deploy large amounts of capital for these contributions pursuant to the Rider I methodology. Additionally ASBG/PGA understand that existing DTS and STS customers with customer contributions may elect to transfer to the new Rider I methodology and receive a refund of the unamortized portion of prior contributions.

Request:

(a) To better understand the potential impact of the Rider I proposal please provide AML’s:
   - original customer contribution balance at December 31, 2008,
   - the cumulative amortized customer contribution balance at December 31, 2008,
   - the forecast customer contributions for each of 2009 and 2010
   - the forecast customer contribution amortizations for each of 2009 and 2010

(b) On the assumption that the Rider I methodology was in effect January 1, 2009 and all new customers and existing DTS and STS customers converted to the new methodology please quantify the additional capital that the AML TFO will have
to raise for each of 2009 and 2010 pursuant to a) above. Please apply the AML forecasted cost of new capital for 2009 and 2010 to determine the additional financing costs associated with the Rider I methodology for 2009 and 2010 and provide all calculations.

(c) From the additional financing costs determined in (b) above please add amortization and income taxes to determine the additional revenue requirement impact for 2009 and 2010 and provide all calculations.

(d) Please describe any other alternatives to the proposed annual charge that were considered in the AltaLink working group during 2008 and why these alternatives were rejected.

Response:

(a) to (c):

TransCanada has provided estimated responses to the requests in Table ASBG/PGA-TCE 12 below using data from Schedule 7.6 from the AltaLink January 27, 2009 Amendment.

<table>
<thead>
<tr>
<th>Line no.</th>
<th>Description</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Original customer contribution balance at December 31</td>
<td>$143.2</td>
<td>$150.5</td>
<td>$154.9</td>
</tr>
<tr>
<td>2</td>
<td>Cumulative amortized customer contribution balance at December 31</td>
<td>$19.4</td>
<td>$24.3</td>
<td>$29.4</td>
</tr>
<tr>
<td>3</td>
<td>Forecast customer contributions</td>
<td>$32.9</td>
<td>$7.3</td>
<td>$4.4</td>
</tr>
<tr>
<td>4</td>
<td>Forecast customer contribution amortizations</td>
<td>$4.2</td>
<td>$4.9</td>
<td>$5.1</td>
</tr>
<tr>
<td>5</td>
<td>New capital for Rider I customers (if all customers convert to Rider I on January 1, 2009)</td>
<td></td>
<td>$133.5</td>
<td>$4.4</td>
</tr>
<tr>
<td>6</td>
<td>Cost of capital (%)</td>
<td>6.901%</td>
<td>7.018%</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Cost of capital ($) (line 5 times line 6)</td>
<td>$9.2</td>
<td>$0.3</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Income taxes ($) unadjusted for CCA Claim</td>
<td>$1.3</td>
<td>$0.0</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Total Revenue Requirement impact before Rider I revenues</td>
<td>$15.4</td>
<td>$5.5</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Total Revenue Requirement impact after Rider I revenues</td>
<td>$0.0</td>
<td>$0.0</td>
<td></td>
</tr>
</tbody>
</table>

1 For 2009, new capital calculated by subtracting line 2 from line 1 and adding line 3 in the 2009 column. For 2010, new capital is taken from line 3 in the 2010 column.
2 Cost of capital for 2009 obtained from Schedule 4.1.2009 (i) and for 2010 from Schedule 4.1.2010 (i) from AltaLink January 27, 2009 Amendment.
3 Income taxes based on 29% in 2009 and 28% in 2010, with no adjustments for CCA Claim. Equity return of 8.75% and capital structure with 38% equity for 2009 and 2010 based on Schedules 4.1.2009 (i) and 4.1.2010 (i) from AltaLink January 27, 2009 Amendment.
4 Total Revenue Requirement was calculated by adding line 4 + line 7 + line 8.
It should be noted that the revenue requirement impact, net of Rider I revenues, is zero. The reason for this is that the Rider I revenues are designed to completely offset the revenue requirement associated with the Customer Contribution.

(d) Another option that was examined in the AltaLink working group was whether each TFO could finance the customer contributions in an arrangement between the Customer and the TFO. This arrangement was rejected as it left the TFOs with default risk, although quite small, for which they would have to charge a large risk premium on the return component of the costs in the absence of a large pool of customers to manage that risk. If the cost of capital became too high, customers would opt to finance the Customer Contributions themselves and the objective of restoring the TFO rate base would be lost.
ASBG/PGA-TCE 13

Topic: Proposed AESO Rider I

Reference: Appendix A, page 1 of 1

Preamble: Amortized Customer Contribution Rider

Request:

(a) Please describe the recognition and treatment of O and M expenses associated with the Customer Contribution assets for each of DTS and STS customers. Please include a discussion of the use of pre-paid O and M expenses for these customers.

(b) Please fully explain the treatment of dual-use customers as both DTS and STS customers in the determination of Customer Contributions and the proposed amortization of the associated Customer Contributions with illustrative examples.

(c) Please discuss the additional administrative and other costs associated with the proposed Rider I methodology as compared to the status quo and the customer cost responsibility for these additional costs.

Response:

(a) The material requested goes beyond the scope and purpose of TransCanada’s evidence on Rider I and is not relevant to the matters to be decided by the Commission in this proceeding. Please refer to the response to ASBG/PGA-TCE 1(a).

(b) Please refer to the response to ASBG/PGA-TCE 1(a). TransCanada does not propose any change to the determination of Customer Contributions for dual use customers. Once the Customer Contribution has been determined, dual use customers will be able to elect whether or not to use Rider I.

(c) Please refer to the responses to ASBG/PGA-TCE 1(a), ASBG/PGA-TCE 2(c), ASBG/PGA-TCE 3(d), and ASBG/PGA-TCE 10.
Welcome to the front of the room.

Ms. Berge, good morning. Mr. Unryn, good morning. Good morning to you. Good morning to everybody that's out there this morning. I'm going to try to lighten it up a little bit this morning, but it just didn't come to me. That would be you, Ms. Duffy. So go ahead.

I don't know if I have any jokes in my back pocket either. So good morning, Mr. Chairman, Commission Members.

Seated before you are the TransCanada Energy Limited witnesses. Closest to you is Mr. Vince Kostesky, and beside him is Mr. Dan Levson.

I would ask that the witnesses be sworn at this time.

Thank you, Ms. Duffy.

Their CVs having filed as Exhibit Number 29, and I don't propose to introduce them further.

Q. So, Mr. Kostesky and Mr. Levson, do you have before
you TransCanada's evidence, which is Exhibit 94, TransCanada's information responses, which are Exhibits 110 and 111, as well as your CVs, which are Exhibit 129?

A. MR. KOSTESKY: Yes.

A. MR. LEVSON: Yes.

Q. Were these exhibits prepared by you or under your direction and control, Mr. Kostesky?

A. MR. KOSTESKY: Yes, they were.

Q. And Mr. Levson?

A. MR. LEVSON: Yes.

Q. Do you have any corrections to make to these exhibits?

A. MR. KOSTESKY: Yes, I have two corrections. The first one is on page 4 of TransCanada's evidence, which is Exhibit 94. At line 9 of page 4, the words "have the option to" should be struck, and the word "or" should be replaced with "and." Therefore, the revised sentence should read: "Customers would pay the customer contribution and could apply for Rider I repayment of the customer contribution at the time of interconnection."

I also have a correction to the footnote 5 found on page 5 of TransCanada's evidence in the same exhibit, number 94. I'd like to add the words "grossed up 28 percent for income taxes to $5,425,000" to the end of the footnote. Therefore, the revised footnote should read: "The saving was calculated by adding AltaLink's proposed
management fee of $7,004,000 and ATCO Electric's proposed
management fee of $3,000,906 grossed up 28 percent for
income taxes to $5,425,000."

Q. Given those corrections, are the exhibits true and
correct, to the best of your knowledge, Mr. Kostesky?

A. MR. KOSTESKY: Yes, they are.

Q. And Mr. Levson?

A. MR. LEVSON: Yes.

Q. Do you adopt these exhibits as TransCanada's evidence
in these proceedings, Mr. Kostesky?

A. MR. KOSTESKY: Yes, I do.

Q. And Mr. Levson?

A. MR. LEVSON: Yes.

Q. Thank you.

MS. DUFFY: Mr. Chairman, TransCanada's
opening statement was filed on -- I believe it was Tuesday,
with Commission staff and circulated to all the parties,
and there is paper copies at the back of the room.
I believe we need an exhibit number for the
opening statement.

THE CHAIR: Ms. Duffy, we could, and
let's use Exhibit Number 256.

EXHIBIT 256 - OPENING STATEMENT OF TRANSCANADA
ENERGY.

MS. DUFFY: If it's acceptable to the
Commission, I would ask that Mr. Kostesky read the opening statement into the record at this time.

THE CHAIR: That's fine. Thank you.

A. MR. KOSTESKY: Good morning, Mr. Chairman and Commissioners. My name is Vince Kostesky, senior advisor, western power for TransCanada.

TransCanada has intervened in this proceeding to present an alternative to AltaLink's proposed management fee. This concept has been described as "Rider I" in TransCanada's evidence.

TransCanada expects a similar methodology to be advanced by the AESO in its 2010 GTA as a result of the recommendations regarding the customer contribution policy that was submitted by AltaLink on behalf of the working group.

CIAC is trending upward. While AltaLink and ATCO Electric are concerned about this trend, it is also a concern from a customer standpoint. Although CIAC amounts may represent no cost capital to the TFO, customers are required to raise increasingly significant lump sum contributions at the outset of a project.

These contributions are a material cost on the customer's books, but customers have no ownership or control of the asset.

Unlike the proposed management fee, the
Rider I alternative would address the concerns of both TFOs and customers. The cornerstones of the Rider I alternative are as follows:

Number 1: The Rider I payment would provide both a return of the TFO's capital as well as a return on the capital.

Number 2: Rider I would provide the customer the opportunity to make amortized payments over a specified period of time.

Number 3: Rider I payments would only be made by the customer causing the need for the contribution and therefore do not impact other ratepayers.

Number 4: Rider I would only be made available to creditworthy customers, and therefore the risk of default is minimal. As Rider I would be an AESO tariff provision, the AESO would look to its customers in the unlikely event of default.

Finally, number 5: Rider I would permit unamortized balances related to legacy assets to be converted to Rider I.

It is important to emphasize any such conversion would be at the sole discretion of the AESO and the TFO. Therefore, the TFO would determine whether or not it wished to take on these obligations based upon its own financial circumstances.
The proposed management fee would be a new annual charge that would be costly to customers. For 2010, AltaLink forecasts this new charge to be 5.6 million after tax or 7.8 million before tax. It is the before-tax figure that represents the actual annual impact to customers.

The Rider I alternative is less expensive to customers than the proposed management fee. In assessing the merits of the management fee proposal versus other alternatives, TransCanada encourages the Commission to consider actual cost to customers, not just the cost the utilities face.

With respect to Dr. Cicchetti's revised proposal regarding a combination of Rider I and a management fee, TransCanada believes that sufficient numbers of customers with CIAC amounts will qualify and opt for Rider I, so that the TFO's concern of having CIAC as a large percentage of their rate base will be addressed.

Completion of AltaLink's predicted major capital projects in the near future will also result in additions to rate base that will significantly reduce the amount of CIAC relative to total rate base.

Other factors, such as an increase in the transmission investment level and a possible change to prepaid operations and maintenance costs, will also reduce the levels of CIAC required on a go-forward basis.
TransCanada believes that Rider I and these other factors will adequately address the concerns of AltaLink by substantially lowering CIAC as a percentage of rate base. Therefore, it is premature to approve a management fee at this time.

TransCanada has attempted to provide as much detail as possible in order to demonstrate that the Rider I alternative is viable; however, TransCanada is not seeking approval of Rider I in this proceeding. The AESO has already advanced a Rider I-type proposal for consultation in its 2010 GTA, which TransCanada believes is the appropriate forum to determine the details and operation of Rider I.

However, if the Commission is of the view that the resolution of the concerns related to CIAC is urgently required, an early module of the AESO 2010 GTA or another Commission-directed process could be established.

In closing, TransCanada would like to thank the Commission for the opportunity to make these remarks and looks forward to responding to questions. Thank you.

MS. DUFFY: Thank you. The witnesses are now available for questioning.

THE CHAIR: Thank you, Ms. Duffy.

Mr. Unryn, I understand you're the only one that's having cross with this panel; is that correct?
MR. UNRYN: Mr. Chairman, Mr. Ross would --

THE CHAIR: Yes, Mr. Ross; I took that, yes, thank you. Sorry, Mr. Ross.

Go ahead, Mr. Unryn.

MR. UNRYN: Thank you very much, Mr. Chairman, Members of the Commission.

MR. UNRYN CROSS-EXAMINES THE PANEL:

Q. Good morning, panel.

A. MR. KOSTESKY: Good morning.

Q. Panel, first off, we heard your opening statement, and it's filed as Exhibit 256 in this proceeding. I wanted to address a few items in that opening statement. In the second paragraph of the opening statement, you address CIAC.

Now, TCE indicates, although CIAC amounts may represent no cost capital to the TFO, customers are required to raise increasingly significant lump sum contributions at the outset of a project. These contributions are a material cost on the customers' books, but customers have no ownership or control of the assets.

Now, panel, does the use of customers in this context primarily refer to transmission-connected customers?

A. MR. LEVSON: Yes.
Q. Yes, it does. Thank you, Mr. Levson.

Was the customer concern about raising significant lump sum contribution the major driver for the TC evidence on the Rider I proposal rather than the issue of no cost capital to the TFOs?

A. MR. LEVSON: A little bit of history on this might be helpful.

In the spring of 2008, AltaLink initiated a contribution policy working group, and one of the issues that was raised very early was the growing problem with the contributions. And so we began, in that context, with a good portion of industry present, looking at what are the options.

So the concept of Rider I -- it wasn't called Rider I at the time, but the same concept was discussed, along with other ways to resolve the problem. So it was clearly the TFOs at that point in time that was the driving concern, the growing amount, and the no cost capital component of it.

As time went on and the management fee got introduced through the applications of the TFOs, both ATCO and AltaLink, and then I guess the pressure to come up with a solution increased and so we began fleshing out the Rider I proposal. TransCanada took the initiative on it in terms of organizing discussions and negotiating what it would
Look like.

So I don't know if that answers your question or not.

Q. Well, partially, Mr. Levson. I think with your opening statement, because you referenced the material cost of customer contribution on the customer books, it appears that that's a significant consideration in your --

A. MR. LEVSON: Absolutely. And because that process was looking at not just that problem that the TFOs raised, it was also looking at how we were determining the maximum investment level, because from a specific customer perspective, whether it's a DFO customer or industrial customer, you're looking at really large contributions compared to what we had experienced in the past. And that went to a couple of factors. One was the fairly rapidly escalating cost and then an investment policy that just didn't seem to be able to keep up with it.

So we get this growing gap between what it's costing to build facilities and how much is being invested in the system -- or in the tariff, through the maximum investment level. And the difference with growing up -- so we as commercial were motivated to try to come up with a solution.

So this is an issue that's better addressed in an AESO matter proceeding because the investment level
is tied to the cost -- in all of the TFOs costs. So it's awkward to be dealing with this matter here, but the management fee was what brought us here.

Q. Okay, sir. But --

A. MR. KOSTESKY: Could I just add something to that as well?

Q. Yes.

A. MR. KOSTESKY: Talking about the material costs in the customers' books. According to AltaLink's rebuttal, which I believe -- I don't have an exhibit number on it, but in table 1 of Dr. Cicchetti's rebuttal, in 2010, the CIAC amount would be just under $230 million. And we view that as a substantial amount that is on the TFO's books that is not in the customers' account to be able to invest in their core businesses. So it's raising to a substantial level as well in absolute dollars.

Q. So to follow up on that, then, that is a major concern, then, of TCE in developing this proposal?

A. MR. KOSTESKY: Yes, I don't know if I would agree that it's a major concern, but it is an increasing concern.

Q. Thank you. Now, back to the opening statement. When TCE indicates that customers have no ownership of the asset, the AESO does have a primary service credit that addresses facilities that are owned by the customer and for
which a credit is provided. Is my understanding correct there, sir?

A. MR. LEVSON: Yes. If a customer such as TransCanada or, say, a large industrial customer chose to own the facility, if it's the substation they're allowed to do that. It's not available for transmission facilities because once they cross the road allowance, they invoke sort of the monopoly rights of the TFOs. But for the substations we do have that option.

Unfortunately, the primary service credit, in our view, and we've expressed this concern before this Commission in the past, does not anywhere near match what we think are the costs that we would incur. So we would love to build, own, and operate our own substations, if the primary service credit was designed properly. Then we would go away at least on that part of the problem.

But unfortunately, there's a major disincentive. We can't make it work economically when we should be able to, if that credit was -- puts you on a level playing field. So it shouldn't matter would owns the substation. It should be simply other factors. It shouldn't be a financial matter.

Q. Okay, sir. But the way the AESO tariff exists at this time, customers can own substation facilities, so there is an ownership component?
A. MR. LEVSON: You're technically correct, that is an option that is available that customers can build their own substation. And we would actually probably like to do that because then we can manage our costs better.

Q. Sure. Thank you, Mr. Levson.

Farther down on the first page of the opening statement, TCE indicates at point 3:

"Rider I payments would only be made by the customer causing the need for the contribution and, therefore, do not impact other ratepayers."

Also farther down that page at point 4, TCE indicates:

"Rider I would only be made available to creditworthy customers and, therefore, the risk of default is minimal. As Rider I would be an AESO tariff provision, the AESO would look to the customers in the unlikely event of default."

Now, gentlemen, in the context of these points on impact on other customers and default, could you turn up the response to ASBG/PGA TCE 012D, which is Exhibit 0111 in this proceeding.

Gentlemen, do you have that?

A. MR. LEVSON: Yes, we have it.

A. MR. KOSTESKY: Yes, we do.
Q. Thank you. Now, gentlemen, this response indicates number D, and I would just like to quote that response:

"Another option that was examined in the AltaLink working group was whether each TFO could finance the customer contributions in an arrangement between the customer and the TFO. This arrangement was rejected as it left the TFOs with default risk, although quite small, for which they would have to charge a large risk premium on the return component of the costs in the absence of a large pool of customers to manage that risk. If the costs of capital became too high, customers would opt to finance the customer contributions themselves, and the objective of restoring the TFO rate base would be lost."

Now, gentlemen, in reading that response, it appears to suggest that the TFOs considered an arrangement between a customer and a TFO where lump sum contributions at the outset of a project is substituted by amortized payments over 20 or more years is a significant risk that required a large risk premium. Could you agree with that paraphrasing, gentlemen?

A. MR. LEVSON: Yes. The TFOs -- there's two aspects to this. First of all, at a high level, and this is what I understand from what the TFOs said to us as we
were working on this, was that right now, under the normal assets that are already covered by the investment policy, they do not incur default risk. That's their understanding of it.

They assume that the AESO has the contracts with the customers and the TFOs have really nothing to do with the contracts, enforcing them, setting the tariffs or anything. So they assume that if a customer defaults, it's the AESO that has to go and recover whatever cost they can. The TFO will -- if it's eventually determined to be no longer used and useful, the facility would be retired. So that's sort of the starting point. So they looked at this as an increase in their risk that they didn't want to take on.

The reason for the larger risk premium is that -- part of the reason, anyways, as I understand it, is that, as we said, there's just -- at least initially, what might just be a handful of customers.

Default risk is managed down by having a large number of customers that you spread it over, and until that's in place, you have to assume the worst, unfortunately, that, you know, a customer might default and you have to build in this big risk premium.

But the opportunity we have as a system with 600 points of delivery, roughly, we can spread that risk
broadly. So they don't have that opportunity.

The other thing that -- of course, in our proposal, the way we manage that, of course, is with the creditworthiness test. So we take it over to the customers. We don't think it's a big risk because there have been virtually, to our knowledge, there's really no experience in Alberta of this actually happening at the TFO level. There's three customers that I have explored that might be a problem, but as I looked at them, more information I have on them, they were not imposing any burden on the system after the contractual management resolved and so on.

So I've been drifting a little bit, but the TFO on a stand-alone basis, with one or two or three customers starting us out, have to put in a bigger risk premium, but if we can do this across the whole system, it -- the risk which we think is small is spread even thinner. And then there's a bunch of measures to protect, and I can explore those with you if you'd like, beyond the creditworthiness test.

Would you like me to explore those with you?

Q. I think you've tried to address my question, and I think you're suggesting that to mitigate this risk, there has to be the large pool of customers, and with that large pool of customers, that is customers that have provided
customer contributions and also customers that have not
provided customer contributions. You would agree with
that, sir?

A. MR. LEVSON: Yes, we're basically saying
that it becomes an AESO matter to resolve, just like they
would on any customer that defaults today. They're going
to lose tariff revenues from it. It seems to happen
rarely, if at all. The perspective of 600, you know,
points of delivery, we're talking about one out of 600 that
never seem to ever happen anyways. And there are other
things that you can do. Like, you know, there's the
creditworthiness test which we think if the AESO applies it
rigorously, it would reduce the risk almost to zero.

Another thing to be aware of in Rider I,
we're not trying to get every customer on to Rider I. All
we're trying to do is make it available so that we can
shift some dollars over to the TFO and bring the amount
CIAC down to that sort of threshold of 10 percent. So if
we can get it down to 8 percent, that's probably going to
solve, our view at least, the TFO's concerns and yet we
don't need to expose ourselves to any risk.

Then if you go just a little bit beyond,
since you've given me the opportunity, if a customer
somehow gets through that creditworthiness test and still
is not able to back up their financial obligations, you
have to keep in mind that these are very large facilities. These are facilities that are typically hundreds of millions of dollars, if not a billion dollars - refineries, gas plants, those kind of facilities. And so if the company behind those facilities was to go bankrupt, then somebody's bound to pick up those assets and want to operate them, they're functional assets.

So in coming back from bankruptcy with a new owner and even setting them aside, that new owner would want to have power and the AESO simply says, pay your bills and you can have power.

The other thing is that these -- from the perspective of most customers, the amount of power that's consumed relative to the overall economics of the plant is actually quite a relatively small percentage.

So if the plant is viable, the electricity is not going to be an issue, they'll pay their bills, which is what the default concern is about.

There's more beyond, that too. Even if that didn't work -- even if you can't get a new owner to take on the obligations, then you can -- we should remember that this could happen anywhere in the life of the asset. The asset may have been depreciated already, there may be very little exposure of what's left on the books. And then, finally, even when the asset is retired, especially
substations, there's quite a bit of salvage value in things like transformers and breakers, so a lot of times transformers last much longer than the life of the contract at 20 careers, so they can be used somewhere else.

Q. Thank you, Mr. Levson, for that elaboration. But if I go back to my initial question, the default risk to other customers -- and that other customers are customers that do not have to provide a customer contribution -- the impact on these other customers would be minimized with the continuation of the status quo where lump sum contributions are required from customers prior to construction.

You would still agree with that observation; would you not, sir?

A. MR. LEVSON: Yes. I mean, we're not saying that Rider I has zero risk, to be clear. We think it's very small. So if you're going to compare -- I think to be fair, you need to compare not just people who have made a contribution -- or have not made a contribution; you need to include those who have made contributions because we're going to have to bear it in that default risk as well.

But probably more importantly is that our proposal is largely here to compete with the management fee as what we think is the better alternative.
And if this Commission decides to grant some form of management fee to AltaLink, and possibly to ATCO as well, then we've got a real cost, and we've got nothing else, you know, for it. We haven't got any more service, we haven't got any more reliability, we've got nothing for that extra cost.

So that management fee certainly got our attention, and that's what we're really competing with, not with status quo.

A. MR. KOSTESKY: Mr. Unryn, if I could just go back to your initial observation of point number 3 in the opening statement regarding the impact of other ratepayers. That point number 3 was structured so that it identified that the CIAC payments that have been made to the TFO Rider I would fall to that particular customer. So the intent of point number 3 was that Rider I was not to be spread over all of the AESO customers; it was going to track to the customer that triggered the contribution, and that was the point on not impacting other ratepayers from a collection of the Rider I payments. They would come from the customer that would have made the CIAC payments. And then we had a long discussion about the default risk as well.

I would echo Mr. Levson's comments that the Rider I, if it does follow, and we assume that it will
follow to the customer that is required to put up the
contribution, then we're left with default risk, but if the
management fee gets approved, that's paid by all customers
and that's what we view is a much higher cost to the
customers than the default risk that could be associated
with Rider I.

Q. Okay, sir. You're assuming the management fee there
would not be allocated, then, to specific customers?
You're suggesting it would be allocated over all of the
AESO customers?

A. MR. KOSTESKY: That's an issue that needs to
be resolved and it's best to be resolved in the AESO 2010
GTA when all the parties are present. We don't know which
way it's going to go, but it is an additional cost that
needs to be collected from customers, and I use that
broadly because I'm not sure if that's isolated customers,
or peanut butter I think is the word I've heard earlier on
in the hearing. That is yet to be determined.

Q. Thank you, sir. Now, back to the opening statement.
Point 5 indicates:
"Rider I would permit unamortized balances
relating to legacy assets to be converted to
Rider I."

Now, in the context of legacy assets, could
you, again, turn up the response to ASBG/PGA TCE 12, which
Now, I'd like to direct your attention to the response to parts A to C.

A. MR. LEVSON: We have that.

Q. Now, in the response A to C, TCE provides a table and at line 5, it indicates:

"That some 133.5 million dollars of unamortized legacy assets could be converted to Rider I payment options."

Do you see that, sir?

A. MR. LEVSON: Yes, I see that. Just to be clear, that was the assumption we were asked to respond to. So it's --

Q. So sort of the balance of unamortized legacy assets?

A. MR. LEVSON: That's right. We just didn't worry about creditworthiness. We assumed that everybody was creditworthy. If some aren't, then that number would obviously go down.

Q. That's fine, sir. Now, in this respect, the TCE Rider I proposal is similar to an additional capital cost project proposal of $133 million that must be prioritized with all other capital projects that AltaLink is proposing in this proceeding.

Could you agree with that characterization, gentlemen?
A. MR. KOSTESKY: Yes, we would.
Q. Thank you.
A. MR. LEVSON: With one caveat. If I might just add. When you said prioritized with, are you saying on an equal priority with --
Q. No, I --
A. MR. LEVSON: -- or just in the basket of things that --
Q. In the basket of capital projects.
A. MR. LEVSON: It's important to make that distinction because we have -- in our proposal, we are giving both the AESO and the TFO the complete control over whether these investments are made or not.
So if AltaLink was in a situation where they had capital constraints -- maybe I'm jumping ahead here. But if they were in the place of capital constraints, then they can just simply say no, if they think they can't get the capital.
This Rider I program is not designed to cause AltaLink any undue financial burden. That's why we put that provision into Rider I.
We had discussions with the TFOs about this very issue as a part of that work that we did in October and November of last year, and that's why that provision is in our proposal.
Q. Now, sir, are you suggesting, I guess, that legacy assets can be addressed, but you're suggesting that a financing concern can limit the amount of that conversion; and if, in fact, there is that limitation, how would you apply that, on a case-by-case basis, to particular customers and still have fairness in your proposal?

A. MR. LEVSON: Well, I guess that is case of, you know, a reasonable level of discrimination. First of all, we're saying customers who aren't creditworthy, they may apply, but they will not get approved by the AESO, before it even gets to the TFO.

If they make application for Rider I, the AESO determines them to be creditworthy, then the next step is you would then go to the TFO to make application. If it's a legacy asset, the TFO looks at that and says, We can afford this in our capital financing or we can't. And if they can't, they might say, Just put it on hold until we can.

So we're not -- you know, these are details that are best probably worked out in the AESO's 2010 GTA, but this is our flavour of it. Why we think we have a credible proposal is that the concerns that was expressed by the Commission we don't think need to be a concern, because the TFOs have control over this process for legacy assets.
I don't know if I have addressed your --
fully, the fairness issue. But I suppose if there's more
customers seeking -- and I'm speculating here a little bit.
But if there's, say, $50 million worth of contribution
seeking to be treated under Rider I and the TFOs say they
only got 30, then maybe they will do a draw or apportion it
or something, but we'll find a way to make it fair among
customers, I'm sure.

Q. A lottery or something.

A. MR. LEVSON: We're pretty good at making
things fair.

Q. Okay, Mr. Levson, but you would agree that from what
you put on the table, the $133 million, it certainly
would -- would or could aggravate the cash flow situation
for AltaLink, the credit metrics, and, you know, that could
flow into financing costs which could impact all customers.
Could you agree with that observation?

A. MR. LEVSON: Maybe Mr. Kostesky will weigh
in on this, but I'm having difficulty agreeing with that,
at least based on our review of Exhibit 226, which was
filed by AltaLink.

We went through that quite carefully, and I
could not find any flaw, really, in their calculations. I
think that adding particularly legacy assets, because they
immediately cash flow, and they actually improve AltaLink's
ability to raise capital, is the argument that they make, because of the coverage, the credit coverage that it helps. So it's different than a construction work in progress, a situation where you're raising the capital, but they don't have cash flow until it's commissioned and determined to be used and useful. So I was persuaded by it anyways.

Mr. Kostesky?

A. MR. KOSTESKY: Yes, I would echo those comments as well: that it appeared, based on Exhibit 226, that AltaLink came to the conclusion that converting legacy CIAC amounts to Rider I or financing them would be supportive, actually, of AltaLink's credit metrics, even during this big build era that they're coming into. I'm making reference to the very last paragraph before the table. The very first sentence indicates that.

Q. But, sir, Mr. Kostesky, certainly if AltaLink has to pay out an amount of 133 million or, I guess, even more, I think you suggested earlier, that the CIAC amount could be greater.

A. MR. KOSTESKY: Again, in Exhibit 226, they talk about how converting the CIAC is actually positive
because they -- the assets that they are converting are already generating cash flow, so it's actually positive, the way I read Exhibit 226.

Yes, they would have to go to the market to get the capital. If it's the full amount, we don't anticipate the full amount being converted to Rider I, but those assets are already generating cash flow.

The other thing that we've got to continue to bring up is that it is at the sole discretion of the TFO if they feel that they cannot provide the funding to convert CIAC amounts to a Rider I, they have the option to say, No, we can't do it at this time.

A. MR. LEVSON: Mr. Unryn, you said something that I didn't quite understand. I thought we had said the opposite. You said that it could be 133.5 million or more. Did you mean to say "less"?

Q. No, I was just following up on Mr. Kostesky's earlier comments that the CIAC amount could go up into the $200 million mark, so -- very shortly.

A. MR. KOSTESKY: And I referred that -- or that number came from table 1 of AltaLink's rebuttal evidence on page 52. Their number projected for 2010 is 229.5 million of CIAC. So that's where that number came from.

Q. So the 133 million, then, can actually increase rather
than decrease. I think that's your point; is it, Mr. Levson?

A. MR. LEVSON: Maybe we're talking about apples and oranges here. I think this -- this 133.5 is legacy assets. I thought that was the context that we were talking about. So, yes, if you're referring to -- this is the most that the legacy assets can be, as far as we know from the books of AltaLink, from their numbers.

I suggest it could be any number between there and zero, at their discretion. But for the new contributions that are coming on and the new facilities that are coming on the system and the associated contributions, those amounts would also need to be potentially financed after, in our view -- and that's the change that we made to the evidence -- that would happen after -- to be clear, after they are used and useful, not prior to -- not during the construction phase.

Q. Right, yes, I think that change you made -- so there would be the initial contribution before construction starts, and then there would be a refund of that contribution after construction is completed and it's in service.

A. MR. LEVSON: There could be a refund if they're creditworthy, right, but not -- only under that condition.
Q. Thank you. Gentlemen, I have a few questions for clarification with respect to your response to ASBG/PGA TCE 001, which is Exhibit 0111 in this proceeding.

A. MR. KOSTESKY: We've got it.

Q. Okay, thank you.

Now, in response to 1 C, TCE indicates that new STS customers may be required to pay an upfront system contribution, but this contribution would not be subject to the proposed AESO Rider I.

Could you agree with my paraphrasing of that response, sir?

A. MR. LEVSON: I didn't see that in the response. Can you repeat your paraphrasing, please?

Q. Okay, new STS customers may be required to pay an upfront system contribution, but this contribution would subject to the proposed AESO Rider I.

So we're looking at system contributions versus contributions for interconnection?

A. MR. LEVSON: Yes, that's -- there's a provision in the AESO tariff, nothing to do with a normal interconnection, to do with the -- when you're moving -- building generation in a generation-rich area and sending that electricity to a load area, there's a provision to charge contribution for supporting the bulk system costs.

It's not a really large number, and it's
also refunded. So we had wanted to be clear we're not proposing that any of those contributions should be a part of the Rider I program.

Q. Okay, sir.

A. MR. LEVSON: They would be left as they are. When I say -- they are refunded over time, under certain conditions. The generator has to produce certain levels of electricity every year to qualify for a refund.

Q. Yes, that's my understanding: that the AESO is required to repay the STS system contribution to the STS customer over a period of nine years if the generator meets specified performance criteria. That's what you're referring to, sir?

A. MR. LEVSON: You said it more eloquently than I did, yes.

Q. Thank you. Now, in contrast to the system contribution requirement, the STS customer could spread out the interconnection costs, the payments associated with those interconnection costs, over a period of 20 years, pursuant to your proposed Rider I. Is my understanding correct, sir?

A. MR. LEVSON: We set a range of between 10 and 20 years for STS-type customers.

Q. Right.

A. MR. LEVSON: But not in excess of 20.
Q. Right. Up to 20 years?

A. MR. LEVSON: Yes, but not below 10.

Q. For consistency purposes, why wouldn't you have utilized amortization periods and performance criteria for the STS interconnection customer contribution in the same manner?

A. MR. LEVSON: Well, we were endeavouring to balance interests, to come up with a viable proposal. And some generators, because of the nature of the generation, it may be more appropriate for them to have a shorter amortization period, by their own choice or perhaps the choice of the AESO.

We didn't go below ten years, because if we go too short, then the TFOs say that their problem isn't being addressed, which is they would like to have this in their rate base. So if they have got a generating asset that lasts 30 years and they only get return on enough capital for ten years or less than ten years, then they consider that a problem.

So, again, we are just tying to demonstrate that this would be in the range of what would work for STS-type customers, and it is a detail that we can refine as we get into the AESO's '010 GTA.

Q. Okay, sir, thank you.

Gentlemen, could you turn now to your
response to ASBG/PGA TCE 008, which is the same Exhibit 0111.

A. MR. KOSTESKY: We have that.

Q. Okay, sir, in response to part A, TCE indicates that any benefits of the Rider I proposal must be compared to the management fee proposal and not to the status quo.

I believe we've discussed part of that earlier. But should I read into that response that there are no benefits of the Rider I proposal to other ratepayers relative to the status quo?

A. MR. LEVSON: So at least from my perspective, having been in the industry a long time, I think there are advantages to having a Rider I option in any jurisdiction. It has been in place at TransAlta for a number of years.

Mr. Wayne Taylor, who was the rate designer, is one of the people I spoke to about this. Unfortunately, it's not very explicit in the terms and conditions, so I can't point you to a specific rider -- a detail in a rider from one of TransAlta's previous decisions, but it was a business practice. So a customer could come and have their contribution amortized over time.

I understand that ATCO has had a similar one -- situation.

We filed -- we, so much as Keystone -- filed
evidence in the ATCO proceeding on the same matter and drew
the Commission's attention to some cases in the States
where this has been made available to the Keystone
pipeline.

It just makes sense that for some customers,
that for whatever reason, that they would like to take
their contributions and have them spread over time. That's
how they get the benefit. They get the benefit over time.
So it makes sense to spread the costs over time.

So, yes, to answer your question, I think,
yes, with that explanation, I think there would be a
benefit of Rider I compared to status quo.
Q. That would be for specific customers?
A. MR. LEVSON: For specific customers. And
the same kinds of things would apply: You'd have to do
your creditworthy test and so on.

So it's been done in the past; it's done
elsewhere; and we think it makes sense here.
Q. Okay. Sir, in terms of an STS customer chooses a site
for development, would you agree that the requirement for a
full, upfront contribution for interconnection facilities
causes more discipline in the sighting decision, rather
than having a series of annual payments for 20 years?
A. MR. LEVSON: I guess, at the highest
level, any time you ask somebody to pay, say, $5 million
today versus spreading it over time, there is an additional financial obligation that you're imposing on that -- on that player.

But for larger customers, whether they're a DFO or whether they're a large industrial customer or a reasonably sized generator, I don't think they are affected materially by that kind of discipline, because financially they're equivalent, whether it's -- roughly equivalent, whether it's spread over time -- you know, you're going to pay your return on and return of. And so they're -- you're pretty much indifferent.

I think where discipline comes in is where you actually have a cost that's imposed on you, that's higher than another location. So if you're a generator and you pay higher losses at one location or another, then that incents you to do something different.

It's not actually necessarily an upfront payment, obviously, but that's the kind of thing that causes us to think about what we're doing and where we're doing it.

From a generator perspective, from a load perspective, my experience over the years is that most loads -- we're talking TFO loads now, or AESO loads, not distribution level loads.

People are building the plant around a lot
more important things than the cost of electricity. It's just -- it's a cost of doing business, but it's -- they're not going to not build a oil sands plant because of any kind of signal that we can come up with here. It may not be a fair price, but it's not going to materially affect their decisions, from my experience.

A. MR. KOSTESKY: I'd like to just add to that, Mr. Unryn, that the intended signal that the contribution for interconnection facilities was intended to provide -- it's still preserved. That interconnection payment that's required above the investment level will still apply. And what we're talking about is whether it comes in the form of a CIAC payment or it comes in the form of an amortized payment stream over a Rider I-type concept.

So I agree with you that the intent of that contribution was to signal the generators to try to locate as close as possible to the bulk system. So I would agree that statement.

But that's different than signals coming from Rider I versus a CIAC. I think that they're exactly the same. The difference between CIAC and Rider I doesn't affect the signal. The signal is still there. It's how is it paid for.

Q. Gentlemen, does the 12 percent prepaid O&M charge remain as part of the TCE Rider I proposal in this
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1 proceeding?

2 A. MR. LEVSON: The Rider I is basically a proposal that deals with what has been determined to be CIAC. How that amount is determined is, I think, a separate issue that we really haven't addressed, other than in one way.

We acknowledge that if this Commission agrees with the parties that were advancing the review and variance application, which, as I understand, is unanimous for the amounts below the maximum investment level, that if the Commission does agree with that and makes that revision to the tariff, the impact of that will be that there will be a reduction in the total amount of cost that goes in before the investment policy is applied.

Do you want me to give you a quick example, or is that sufficient?

Q. I think so. So your proposal is in line with the R&V before this Board; is that . . .

A. MR. LEVSON: Yes, it's in line with it. They're not -- they're independent. They largely -- the only other thing we've observed is that if the Commission does agree with the proposal in the review and variance, that it will take a little bit of pressure off of CIAC as well, among some other factors, and reasons why we -- it gets to the issue of how urgent is this matter, so . . .
Q. Okay, sir. In the AESO terms and conditions, article 9-14 provides the details of the discount rate applicable to payments pursuant to article 9.

Now, in contrast to this existing discount rate, the TCE proposal references the TFO weighted cost of capital for payments.

What was the reason for the change in respect of the discount rate?

A. MR. LEVSON: The reason is fairly straightforward and that's that the CIAC assets will be on the books of the TFO, not the AESO. So in order to match the cost that the TFO incurs with the payments that would be made under Rider I, we felt it was appropriate that the weighted average cost of capital of the TFO that has that CIAC on the books, would be the appropriate one.

There was some discussion, you know, about having a province-wide, you know, weighted average cost of capital, but that, very quickly, is dismissed. It's just not practical. And it leaves a problem with a generic one versus the individual TFOs because what are you going to do with the difference? Who's going to make that up? So the obvious thing to do is to just give the weighted average cost of capital of that particular TFO and apply it to that particular customer's arrangement. And it's totally acceptable to those of the customers that were involved at
least. It didn't seem to be an issue at all. It just
seemed logical.

Q. So that calculation would be specific to the customers
of each TFO?

A. MR. LEVSON: That's correct. So if we had
a CIAC amount in the AltaLink service territory, then we
would have the AltaLink weighted average cost of capital
and ATCO would be -- their weighted average cost of capital
would apply. It keeps everything consistent.

Q. You don't think that, administratively, we're going
down the road of more and more complexity?

A. MR. LEVSON: Yes, there's -- we've
answered some of your questions around complexity. I'd
agree with you, this would be difficult you know when you
get down to residential customers, it would be a challenge,
but given the multi-million dollar type levels of
contributions, the relatively small number of them, we
don't think it's a problem.

The AESO has been a part of our discussions
and deliberations on this and they did not raise this as a
concern. I can tell you from experience that if the AESO
has a concern with administration, they usually let us know
pretty quick.

Q. Thank you, sir.

In your response to ASBG/PGA TCE 10, and I
don't think you actually have to pull it up, it addresses regulatory efficiencies. Currently the AUC is conducting a generic cost of capital proceeding for all the utilities in the province.

Does TCE consider that such proceeding will address the capital structure of utilities and, therefore, will also consider the impact of CIAC on capital structures?

A. MR. LEVSON: That was a good question.

Obviously there's lots of evidence on the record in this proceeding from AltaLink that these matters aren't the rate of return that they deserve, are entitled to and CIAC are related, but I don't think we really can answer -- give you much help on that question. If parties in this proceeding want to raise it, then it's up to them, but it's not been in our thinking.

Our proposal does not depend on going into a generic cost of capital proceeding and getting into a big debate on all the inefficiencies involved in that matter and trying to figure out what adjustments to return should happen for various utilities based on how much CIAC they have. We're trying to come at it more in a fundamental level and say let's just find ways to lower the level of CIAC below that 10 percent threshold and solve some of our
concerns, the customer concerns at the same time. I think it's a better way to go.

I have to tell you, Mr. Unryn, I am not a cost of capital expert, but I have been around the industry long enough to know that those proceedings tend to be quite complex, and this would be just another thing. I don't know how you could separate them out. It would be quite a challenge.

A. MR. KOSTESKY: If I could just add to that, Mr. Unryn. I'm kind of glad that I did turn response 10 up.

In the context of our response there, the regulatory efficiencies we were talking about is dealing with either a management fee or Rider I in one forum rather than dealing with it in multiple forums, and we've had this management fee discussion in the ATCO proceeding as well.

So the efficiency we're talking about is let's deal with it in one forum, which is primarily the AESO 2010 GTA, to assess its merits, rather than going it piecemeal through every TFO's application. I think that's the context of the response in 10.

Q. Okay, sir. The piecemeal, it may be solved to a certain extent if it was addressed in a generic cost of capital. Would you agree with that, sir?

A. MR. KOSTESKY: Possibly.
Q. Okay, thank you.

MR. UNRYN: Thank you, Mr. Kostesky, Mr. Levson. Those are all my questions.

Mr. Chairman, members of the Commission, thank you for the opportunity.

THE CHAIR: Thank you, Mr. Unryn.

MR. ROSS: Good morning, Mr. Chairman. I am certainly prepared to proceed right now. I see on the clock it's 20 after 10. So I'm in your hands as to whether you want to take a break now or whether you'd like me to proceed.

I will most certainly go in my examination after the proposed 10:30 break, so I'm prepared to start and stop or take our break now.

THE CHAIR: Mr. Ross, we do have an interesting clocks. I'm looking at quarter after on the back clock, so I'm using that one, so I'm thinking 15 minutes in would probably be beneficial. That would give all of us an opportunity to hear some of the things you're asking about and then continue after the break.

MR. ROSS: Certainly, sir.

Good morning, panelists. Good morning, Mr. Kostesky and Mr. Levson.
MR. ROSS CROSS-EXAMINES THE PANEL:

Q. I want to refer you and explore with you in the first instance an amendment that we've heard this morning in respect of page 4, lines 9 and 10 of your March 6, 2009 evidence. I will give you a moment to turn that up. For the record, that's Exhibit 0094.00 TCE LTD-102. If you have that, from what I have heard this morning, you're looking to make an amendment which takes out the wording "customers would have an option to pay customer contribution or could apply for a Rider I repayment of the customer contribution at the time of interconnection." Correct me if I'm wrong, but you're removing the reference to having an option and changing "or" to "and." Is that correct?

A. MR. KOSTESKY: Just one extra word that we're deleting, the word "to," so having the option to is deleted, so the word "to" is also deleted.

Q. But Mr. Kostesky, you're still providing essentially two types of payment option notwithstanding this change; is that correct?

A. MR. KOSTESKY: Yes, there's either a CIAC or a Rider I repayment, yes.

Q. Thank you, sir, for that clarification.

Just another matter of clarification and as a matter of terminology, can we agree that the AESO
customer contribution policy, which is often referred in these proceedings as the AESO investment policy, is set out at article 9 of the AESO terms and conditions of the AESO 2007 tariff; correct?

A. MR. KOSTESKY: Subject to check, correct.

Q. For the purposes of the record, Mr. Chairman, that's found at Exhibit 0111.00 TCE LTD 102.

Mr. Kostesky, can we agree that under Rider I, as proposed by TCE, the choice to pay the customer contribution is equivalent to the customer prepaying the full amount of the customer-related facilities not covered by the AESO investment policy?

A. MR. KOSTESKY: Can you give me that question again?

Q. Certainly. Under your Rider I proposal, we've agreed already that there are two options here in play: One is a customer contribution and one is a repayment of customer contribution at the time of interconnection.

   So the first being option 1, that payment of customer contribution, we could characterize that as a prepayment of the full amount of the customer-related facilities; correct?

A. MR. KOSTESKY: That's correct. I just want to draw a distinction in our proposal in dealing with legacy assets versus new assets. So I'm assuming you're
talking about the new assets because the legacy assets, the payments have already been made.

Q. That's correct, sir, and we'll get to legacy assets later on. So I take your answer.

Can we further agree that, and I'm quoting, "applying for a Rider I repayment of a customer contribution at the time of interconnection" would involve signing a facility or a tariff contract? That's part of your Rider I proposal?

A. MR. LEVSON: Yes, these arrangements will be done under contract.

Q. Mr. Levson, that contract would essentially provide the transmission facilities operator -- for the record, TFO -- with a return of its investment, plus a return on any amortized balances calculated based on the TFO's weighted average cost of capital for customer-specific facilities; yes?

A. MR. LEVSON: Yes. I think you said "unamortized"; is that right?

Q. That's correct. Can we further agree that under Rider -- under your rider repayment of the customer contribution at the time of interconnection is essentially a deferred payment?

A. MR. KOSTESKY: I don't know how you would want to define deferred payment. I would certainly say
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it's an amortized payment. Is it deferred? It all depends
on how you define deferred, but it certainly is an
amortized payment.

Q. Okay. Further, that the contribution at the time of
interconnection could be characterized as an amortized
payment or perhaps deferred payment with a carrying charges
option.

A. MR. KOSTESKY: Can you explain to me what
you mean by a carrying charge option?

Q. Well, I guess -- I mean I'm certainly a simple lawyer
but why don't we take it this way: If we were to view at a
broad level that carrying charges involved interest
charged, for example, on a balance owed when paying in
installments, that that might be a type of carrying charge
to consider.

A. MR. LEVSON: I guess maybe in a broad
sense that might be in the ballpark. A simpler way of
expressing it I think is it's just the traditional cost of
service calculation involved in the cost of capital for
these facilities. So it includes a return on and return of
the capital over time.

It basically matches pretty much what
happens with all the other TFO assets, same way that
average cost of capital -- everything is the same. The
only difference is instead of it being a lump sum number
that goes to the TFO, it gets kind of labelled as
associated with a particular customer and goes through
Rider I for cost recovery through payments from that
customer. So that's -- nothing more complicated than that,
I think.

Q. Thank you, sir. Can we agree that repayment of the
customer contribution at the time of interconnection under
Rider I constitutes compensation for services rendered?

A. MR. KOSTESKY: Depending what services
you're talking about, but under Rider I, they would be
earning the same return as they would for investment policy
investments, if I might use those acronyms.

The calculation for the amount of payment
that falls out of that calculation is the same calculation
as would be for the rest of the TFOs' investment. So it
would include a return on and a return of capital.

So I don't see those being any different.

The calculations and the amounts that come out of those
calculations for Rider I are the same calculations that are
done for the TFO revenue requirement for their rate base?

A. MR. LEVSON: Mr. Ross, can you elaborate a
little bit when you said services? That's what kind of
caught my attention. I don't normally consider these --
this kind of a transaction to be a service. Like when I
say services, I'm thinking operations and maintenance or
something like that.

Q. Well, with respect to the question of services, I guess what I had in mind in a general sense is certainly some of the -- let's take, for an example, maintenance-related issues. Let's take, for an example, ensuring reliability. Would you include those in your assessment?

A. MR. LEVSON: All of the services that are outside of the capital part, as we understand it, are recovered through the revenue requirement of the TFO.

So operations and maintenance costs are not -- this is the prepaid ones, but assuming that they aren't there, they are normally recovered through the TFOs' revenue requirement. They're not a part of this.

We're not asking for the Rider I to include -- to be more clear, we're not asking it to include anything other than a financial transaction around the payment of the CIAC amount.

Q. Thank you, sir. Can we agree that under Rider I, compensation, when contributed at the time of interconnection, is through a return on equity?

A. MR. LEVSON: Return on equity is a part of compensation.

Q. In that vein, Mr. Levson, can we agree that repayment of the customer contribution at the time of interconnection

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in respect of Rider I would include an obligation to repay principal through amortization of original cost over time?

A. MR. LEVSON: That's correct, as well as debt. So those would be the three components. The fourth one, of course, that attracts the equity is the income taxes.

Q. You've moved me ahead to my next question, sir, but I will ask it nonetheless. Can we agree that repayment of customer contribution at the time of interconnection under your Rider I includes the repayment of the interest component on the debt of TFO's financing?

A. MR. LEVSON: Yes.

Q. Can we agree that under Rider I, if a customer chooses to pay the customer contribution as a prepayment, which you've agreed to, Mr. Levson and Mr. Kostesky, that the TFO does not receive any income stream attached to that prepayment amount?

A. MR. KOSTESKY: So for new facilities, they would not receive a cash flow from the asset while it's under construction. They would begin to receive cash flow once it was in service, used and useful. So during that time period when the CIAC payment was made and the time that it was -- that the facility was built and interconnected and used and useful, yes, during that time period, the TFO would not have any cash flow from that
project, but they would have the CIAC payment on account as well.

Q. Thank you, sir. Can we agree that a TFO's responsibilities and risks associated with assets that it acquires under either a prepayment or a deferred payment, as we've discussed this morning, are the same?

A. MR. LEVSON: I don't think a prepayment, a lump sum prepayment of the entire CIAC and a payment over time involve the same risk.

If that was the case, I don't think we would have had the discussion with Mr. Unryn about default risk. So they are close if the default risk is minimal, but they're not exactly the same.

Q. Thank you, sir. Mr. Kostesky, I want to get you back to a discussion we had a few minutes ago and I just want to try and summarize. Can we agree that under what's been referred to as prepayment or prepayment option under Rider I, AltaLink would receive no income for -- and we've talked in a broad sense of services, but let's revisit that, for services it provides using the assets financed under the prepayment option? Correct? I think we've agreed to that.

A. MR. KOSTESKY: Yes.

Q. But that it would receive income for the same services if assets are financed under a deferred payment option; correct?
A. MR. KOSTESKY: The only difference between those two time elements is that assets are being constructed.

Q. But I want to take you -- I think we've agreed to the first part of that question with respect to income for services provided using assets financed under a prepayment, but would it receive income for the same services if the assets are financed under what I'm referring to as deferred payment, you referred to as amortized?

A. MR. KOSTESKY: So the very first part, they're not receiving any income from the asset while it's under construction. So I'm not sure when you recharacterize the first part of your question as to whether the TFO is receiving income for the services it's providing when there's a prepayment option.

I distinguish the two as a prepayment while the asset is being constructed, so there is no income from that asset while it's being constructed.

They do have the CIAC payment, but they don't have an income stream for that asset because it's not in service.

Does that help clarify?

Q. Yes, it does, sir. Thank you.

Mr. Levson and Mr. Kostesky, you're familiar with AltaLink's proposed management fee including evidence
given in this proceeding by Dr. Charles Cicchetti; correct?

A. MR. KOSTESKY: Yes.

Q. Can we agree that through its proposed management fee, AltaLink is seeking only a share of the return for the portion of CIAC that it would finance with equity and not with new debt; correct?

A. MR. KOSTESKY: So the way I understand that is the calculation in determining what the management fee is, is on what the return of equity would have been had they invested in it. There is no actual equity infusion by the TFO. It's a calculation based on what would have been the equity component. So I think that's the background of the management fee calculation, as I see it.

Q. Well, just so the record is clear, I want to take you back to Dr. Cicchetti's evidence in-chief, which is Exhibit 2 to the AltaLink application. I will give you a moment to turn that up. But in particular, if you could please turn to page 31 of Dr. Cicchetti's evidence, lines 13 and 14.

A. MR. KOSTESKY: Can you give us those references again, Mr. Ross?

Q. Certainly. It's AltaLink's application. It's Dr. Cicchetti's evidence in-chief, Exhibit 2 of the whole application, Exhibit 2 to this record, and it's page 31, lines 13 and 14.

It's only a brief statement. I can read the
language into the record, if it's helpful.

A. MR. KOSTESKY: We have it.

Q. It says for the record, and I quote:

"AltaLink seeks the more conservative equity only share of the return on for the portion of CIAC it would expect to finance with equity, not new debt."

I will let you take a look at it, but on the basis of that, can we agree that through its proposed management fee, AltaLink is seeking only a share of the return for the portion of the CIAC it would finance with equity and not new debt; yes?

A. MR. LEVSON: No, I don't think we can agree. Because the key word there is "expect," and we have no indication that AltaLink is going to invest in these assets. We, the customer, invested in these assets. We incurred the return on equity. We had to pay for that cost. We had to pay the cost of debt. We had to pay the income taxes, not the TFO.

So he's got a calculation in here that's something like the lost opportunity if they could have invested, but they didn't.

Q. Well, sir, I take your view.

But just for the purposes of agreeing on what AltaLink's position is, can we, at least degree in
principle, that AltaLink is seeking only share of the return of the CIAC it would finance with equity, simply on the basic reading of those --

A. MR. LEVSON: Yes, AltaLink is, in my characterization of it -- is -- taken a tradition cost of service calculation for the capital portion and has extracted out the equity piece.

For clarity, they have also, in my review of the application, added the income tax effect, which we'll also have to pay for, as if they had invested, but they did not.

Q. But it's a portion of equity, not new debt; correct?

A. MR. LEVSON: It includes -- they removed the debt portion. I agree that that's how the calculation works. But where I take issue is there was no investment.

Q. I will move it along. But let me, then, in that case, give you a hypothetical. Assume with me an AltaLink equity thickness of 38 percent; yes?

A. MR. KOSTESKY: Okay.

Q. Under that scenario, a management fee as proposed by AltaLink would involve a customer paying a return on just 38 percent of equity; correct?

A. MR. LEVSON: That's correct. You'd pay the 38 percent return on equity, and then you would gross
it up for income taxes.

Q. Let's put income taxes aside for a minute.

So you go in there with a 38 percent of 
equity; correct?

A. MR. LEVSON: For your example, let's go 
with that.

Q. For the example. And then I want to go to your example: Rider I. And under Rider I, the customer would 
repay the full amount of the customer-specific facility, 
plus a return on the full amount; correct?

A. MR. KOSTESKY: That's correct, but there's a 
fairly significant difference. And that, to me, is that 
under the CIAC scenario, the customer has put up the cash 
for the assets under Rider I; the TFO has put up the cash 
in the form of equity and debt.

So the Rider I scenario is -- tracks the 
investment, from the TFO perspective, from financing.

Q. But I just want to get -- I hear your opinion, sir, 
but I just want to get back to the fundamental principles 
of Rider I, and that is that the customer would repay the 
full amount of the customer-specific facility, plus a 
return on the full amount; correct?

A. MR. KOSTESKY: Yes.

Q. Therefore -- we've discussed AltaLink's 38 percent 
equity, we've discussed what you've agreed to under
Rider I. Therefore, with that in mind, can we agree that a customer would pay less if it prepaid the CIAC and paid the AltaLink proposed management fee, than it would pay under Rider I?

A. MR. KOSTESKY: I don't think I can agree with that statement. We've done some analysis in taking kind of three scenarios. We've done what the cost is or what the cash flows are from the customer for providing a CIAC payment. That's number 1.

Number 2, we took that same scenario and added a management fee calculation or a management fee component to that calculation.

And then number 3, we've taken the Rider I, and we compared the three. And we found that the CIAC, with a management fee adder to it -- the amount that the customer actually would see is quite a bit higher than either a CIAC prepayment or a Rider I.

Q. Mr. Kostesky, has that background scenario ever filed on the record in this proceeding?

A. MR. KOSTESKY: No, they have not.

Q. Thank you, sir. Sir, I don't want to, at this point, deal with matters which haven't been entered as evidence in this proceeding. I simply --

A. MR. KOSTESKY: We'd be more than glad to submit our calculations and our findings on that, on those
cases that we -- I just explained.

Q. That's fine, sir. I'm not seeking an undertaking. I just want to get back to fundamental principals that you've agreed to.

We've talked about a 38 percent equity thickness. We've also talked about, as you've agreed to, Mr. Kostesky, that under Rider I, a customer would repay the full amount of the customer-specific facility, plus a return on the full amount.

And my question to you in that context is, extraneous evidence aside, is that it may well be -- would you agree with me -- it may be that a customer would pay less if it prepaid the CIAC and paid the AltaLink proposed management fee, than it would pay under Rider I?

A. MR. LEVSON: No, we can agree with that. Because under the management fee proposal, we still -- as a customer, from a customer perspective -- we still have to finance the asset. We incur costs very similar to the TFO's costs.

So if you take an example of -- whatever -- $5 million contribution, under status quo, we have to go out and finance that and pay for that over time. That's part of our tariff. That's an amount we pay.

Under the management fee proposal, we pay that amount again; we still pay that amount; plus we pay
the management fee. Under the Rider I proposal, we let the TFO make the investment that we would have made, and we pay the TFO over time, and we don't have to pay a management fee.

Our analysis says that by -- you can pick any kind of debt equity, within reason, that you can think of. You're always going to be, on an NPV basis, roughly, in our calculations, 37 percent more expensive under the management fee proposal.

A. MR. KOSTESKY: So if I could just add to that, Mr. Ross.

When you compare just the management fee to the Rider I payments, you're right: It would be less. But that's not the full picture. The full picture is the CIAC payment and the management fee, compared to Rider I.

And I think that's the erroneous comparison that's done when you just compare management fee to Rider I. You're missing the CIAC component as well.

MR. ROSS: Mr. Chairman, I'm sensitive to the time.

Q. MR. ROSS: I just have one follow-up question to that, Mr. Kostesky, in this area; and then propose to move on to other areas of questioning.

I just want to be clear for the record, Mr. Kostesky, that it may well be that under Rider I, the
customer repayment of the full amount of a customer-specific facility, plus a return on the full amount, may be greater than a customer paying a return on just 38 percent of equity. Leave aside our other discussion. Would you agree with that statement?

A. MR. LEVSON: That's straight arithmetic, Mr. Ross, but that's not -- just to be absolutely clear, that is not what the customer has to pay. The customer has to pay the CIAC on top of the management fee.

So, yes, arithmetic would suggest that if you take the equity component only out of the calculation, that it is less expensive. That is not what we pay.

MR. ROSS: Thank you, Mr. Chairman. I do have further questioning, but I'm in your hands. I would propose to break at this time.

THE CHAIR: Thank you, Mr. Ross. Let's have a 15-minute break. Back at 5 to, on the clock at the back.

MR. ROSS: Thank you, sir.

(ADJOURNMENT)

THE CHAIR: Mr. Ross, whenever you're ready. I am seeing an influx of paper. Are we going to address some of that?

MR. ROSS: That's correct, sir. There's an initial couple of housekeeping matters. I have got a
whole suite of undertaking responses from AltaLink that I would like to go through.

I also note, as well, that Mr. Forster has approached me and he has a procedural matter he wishes to raise at this time as well, but I propose we go through the undertakings first, if that suits you, sir.

The first undertaking, and I apologize if there's a mixture of paper, pertains to Volume 7, page 1020 and it's an undertaking to explain how a ratio of 1.4 was arrived at when comparing a 29 percent increase in forecast midyear rate base to a 16 percent increase in operating FTEs. My understanding is, sir, is we're up to Exhibit 256, I believe.

**THE CHAIR:** 257.

**MR. ROSS:** 257.

**EXHIBIT 257 - RESPONSE TO UNDERTAKING GIVEN AT TRANSCRIPT VOLUME 7, PAGE 1020.**

**MR. ROSS:** The next undertaking pertains to transcript reference Volume 7, page 1071. It's an undertaking to provide a copy of what the new direct-assign letter looks like.

That would be exhibit number 258, I believe.

**THE CHAIR:** Number 258, Mr. Ross.

**EXHIBIT 258 - RESPONSE TO UNDERTAKING GIVEN AT TRANSCRIPT VOLUME 7, PAGE 1071.**
The next undertaking pertains to Volume 7 at page 1066. It's an undertaking to provide the letter from the AESO that gave AltaLink the backstop for the expenditures up to the 35 million.

THE CHAIR: Number 259.

EXHIBIT 259 - RESPONSE TO UNDERTAKING GIVEN AT TRANSCRIPT VOLUME 7, PAGE 1066.

MR. ROSS: Thank you, sir. The next undertaking relates to transcript reference Volume 7, page 1059. It's an undertaking to advise of the number of 5.7 million changes in relation to the opening balance January 1, 2009 forecast.

THE CHAIR: Number 260.

EXHIBIT 260 - RESPONSE TO UNDERTAKING GIVEN AT TRANSCRIPT VOLUME 7, PAGE 1059.

MR. ROSS: The next, sir, pertains to Volume 7, page 985. It's an undertaking to provide the computation of salaries that exceed the CCA max in order to understand how the DC pension cost was derived.

THE CHAIR: Number 261, Mr. Ross.

EXHIBIT 261 - RESPONSE TO UNDERTAKING GIVEN AT TRANSCRIPT VOLUME 7, PAGE 985.

MR. ROSS: Thank you, sir. The final one at this time pertains to Volume 7, page 987. It's an undertaking to provide a recast of the cost shown in most
recent confirmed rates.

THE CHAIR: Number 262, Mr. Ross.

EXHIBIT 262 - RESPONSE TO UNDERTAKING GIVEN AT TRANSCRIPT VOLUME 7, PAGE 987.

MR. ROSS: Thank you very much, sir.

THE CHAIR: Mr. Forster.

MR. FORSTER: Thank you, Mr. Chairman. I do have an undertaking to file, sir, and some procedural matters to address, but before doing so, sir, I'd like to comment or follow up on some comment I made last night.

It appears that my comments last evening regarding Mr. Williamson's cross and the use of the Commission's IR process were unclear.

My only point was this: The Board, your predecessor, often admonished parties to ensure they fully utilized the Board's discovery or IR process, and I assumed that the Commission takes the same view. There is often obviously a question whether a party has fully utilized the Commission's IR process; however, here it is clear the applicant has not done so as it failed to ask any questions at all of IPCAA and the UCA through the IR process.

Having said that, if my comments last evening were misinterpreted, and if they could be construed as suggesting that Mr. Williamson acted improper in any way, that was not my intention and I apologize to
Mr. Williamson and to the Commission for not being clear in that respect.

Sir, I have one undertaking response at this time. It is an undertaking by Ms. Holgate to produce the schedule from section 3.6 of the deferral account hearing. It is entitled "AltaLink application for reconciliation of deferral accounts 2004-2006 capital deferral account project summary by cost components. Projects initiated in 2004 to 2005." If that could be the next exhibit, please.

THE CHAIR: That would be exhibit number 263.

EXHIBIT 263 - RESPONSE TO UNDERTAKING BY MS. HOLGATE TO PRODUCE THE SCHEDULE FROM SECTION 3.6 OF THE DEFERRAL ACCOUNT HEARING.

MR. FORSTER: Two additional matters and these are the procedural matters, Mr. Chairman.

There were a number of questions asked yesterday by Mr. Williamson of Mr. Mohr concerning an attachment to IPCAA -- excuse me, AUC IPCAA UCA 11 B. Mr. Mohr had referred to a document prepared by Keystone in the TransAlta -- in the ATCO proceeding in his evidence and the Commission had requested that that be provided. It was provided and he was asked a number of questions on that. I simply want to highlight for the Commission's information and other parties' information in
this proceeding that the actual author, the notorious
author of that particular piece of evidence is now sitting
as a witness in this proceeding, and if there are any
questions any other party or the applicant or the
Commission may have with respect to that document,
Mr. Levson, I think, is fully qualified to speak to that.

My final matter today, sir, has to do with a
confusion on the record which I noted and attempted to
correct in redirect last evening. The confusion arose out
of a question asked by the Commission. The question asked
was of Ms. Holgate and requested her opinion on the value
of a transactional net margin method to calculating a fair
market value. Her opinion on this matter is actually
contained in her opening statement, but given the opening
statement, even given the opening statement, the confusion
raised on the record last evening, I think, leaves the
record unclear.

If the witness -- it's my position, sir, if
the witnesses were still on the stand today, you would be
hearing -- what you would be hearing would be transcript
correction or testimony correction from the witnesses. The
fact is that they have been excused, and what we propose to
do is to file a transcript correction, but I wanted to
indicate that it would be more of a substantive nature than
what one would normally see. And it is to ensure that the
opinion provided by Ms. Holgate is based on correct assumptions because an opinion based on incorrect assumptions is not very valuable, and I take it Mr. Kolesar was interested in receiving her opinion.

So I raise that now to forewarn that we intend to file that. I fully expect that the applicant may have some comments on that when we endeavour to file it and I also offer up that if there is any concern that additional cross-examination is warranted or requested, that Ms. Holgate, we would be happy to have Ms. Holgate return and respond to any follow-up questions.

MR. ROSS: Mr. Chairman, if I may, I do have some concerns with what Mr. Forster is proposing.

From what I'm hearing, and I have not yet seen what he proposes to file, but from what I am hearing, it would appear as though he is trying to get a re-presentation of Ms. Holgate on the record, and what he refers to is not simply a correction of a transcript record such as a spelling mistake or "of" to "and," but really a rerunning of his case which he's had an opportunity to do and didn't perhaps get the answer that he wanted.

Equally I would note, sir, that at the end of the day, yesterday, Mr. Forster had an attempt to try and have this precise issue on a redirect put to his witness and this Board -- this Commission made a decision
on that and that decision still stands, sir.

So in addition to trying to re-present his case, what Mr. Forster, I submit, is trying to do is effectively relitigate the decision of this Commission.

I do want to make one small point and then leave it as well, sir, with respect to the question of IRs and cross-examination.

The fact of the matter is, sir, that AltaLink put extensive IRs into this process across a whole range of parties. They were faced, as a witness panel, with some seven full days of cross-examination and in respect of Mr. Forster's witnesses, they had one day with a fairly extensive opening statement, I might add.

So any concerns he may have with respect to AltaLink's use of the IR process, I would submit, are simply unfounded.

MR. FORSTER: In response, sir, I appreciate that the Commission did conclude that my attempt at redirect was reaching beyond the norm and, indeed, I prefaced my redirect by recognizing that fact myself. That does not mean, sir, that a subsequent transcript correction by the witness is not appropriate.

And, sir, I put this in this context, sir: Any counsel appearing before this Commission has an obligation to ensure that the record is clear and that
confusions have not been created. And I am simply
dero, to ensure that the record is clear.

MR. ROSS: I might just add, sir, and
then I will leave it be, wouldn't it be nice if all of us
as counsel could have their witness heard again, perhaps to
have a second crack at correcting or taking a shot at
questions which may not be exactly the way that we had
wanted them to come out as answers. And that would appear,
sir, precisely what Mr. Forster is attempting to do.

THE CHAIR: Mr. McCready, you're welcome
to wade in.

MR. McCREADY: Thank you, sir, I just want
to talk one thing about the procedural fairness in terms of
the way these proceedings have worked certainly since I
have been involved the last number of years. Utility
witnesses after -- for example, my cross-examination and
then other counsel is up following me, and then the next
morning they come back and they make correction to their
evidence, and it's not uncommon; it happens regularly,
quite frankly, after they read the transcript and they see,
you know what, I didn't really mean to say that. They come
back and they say either I misspoke or I want to clarify
the record. That happens procedurally on a regular basis
in virtually every proceeding I have been involved in. And
I think all Mr. Forster is saying that the witness ought to
be given that opportunity to make that correction, to make
sure the record is clear.

THE CHAIR: Thank you.

Mr. Ross, is your mic still on? Are you wanting to --

MR. ROSS: No, sir, my position to Mr. Forster is the same as it is to Mr. McCreary, and that is this is simply more than a just mere correction on the record; that this is the re-presentation of evidence, and that's simply my position, sir.

THE CHAIR: Gentlemen, what I think we'd like to do is work this through and so we'll come back with a ruling on that after our lunch break.

I will say, Mr. Forster, that I was pleased with your remarks this morning and I think it speaks of the cooperation that we have had in this hearing. So I thank you for that.

MR. FORSTER: Thank you, Mr. Chair.

THE CHAIR: Mr. Ross, whenever you're ready.

MR. ROSS: Thank you, sir. I'd now like to proceed with cross-examination of the TCE panel.

Q. Mr. Unryn, Mr. Kostesky talked to you this morning a little bit about what the definition of a customer is. I recall at that time you made a reference, I believe, to
peanut butter, among other things, but if I may put it to you, sir, TransCanada has not provided a specific definition of what it means by customer in its rider; correct?

A. MR. KOSTESKY: We have not provided a specific definition of customer in Rider I, that is correct, but what we are referring to are customers of the AESO.

Q. But you don't make any distinction, for example, between customers who pay and who do not pay CIAC; correct?

A. MR. KOSTESKY: We don't make that specific distinction in the definition of customer. There is a customer that pays a CIAC, and there are customers who pay the AESO tariff, and obviously the customer who is paying a CIAC is also a customer paying the AESO tariff or will soon be paying an AESO tariff if they're a brand-new customer to the system.

Q. Thank you, sir. Rider I, as proposed on page 4, lines 15 through 17 of your evidence, and I will give you a moment to turn that up, if you will. It's at Exhibit 0094.00 TCE LTD 102.

A. MR. KOSTESKY: Which page number?

Q. It's page 4, lines 15 through 17?

A. MR. KOSTESKY: Yes, I have that.

Q. It's correct, is it not, that this provides a customer
with the option of converting the unamortized portion of
its existing CIAC to a Rider I payment; correct?
A. MR. KOSTESKY: With the approval of the TFO
and the AESO, which is found on line 16.
Q. I want to take you to your opening statement and the
context of what we've just spoken about, and you'd agree
with me that you've changed your position on conversion of
unamortized balances at point 5, page 1 your opening
statement; correct?
A. MR. KOSTESKY: No, that is not correct.
Point 5 in the opening statement is dealing with legacy
assets.
Q. All right. Well, in that context, would TransCanada
now support removing the conversion option set out on page
4, lines 15 through 17 of your evidence of March 6th so
that Rider I only applies prospectively? Is that your
position?
A. MR. LEVSON: I think maybe I can help you
on that. First of all, in the previous question, we're not
changing our position; we're just clarifying our position.
So everything is as has been proposed.
Can you repeat that last question again,
please?
Q. Certainly. Would TCE now support removing the
conversion option set out on page 4, lines 15 through 17 of
your March 6, 2009 evidence, so that Rider I only applies prospectively? Is that now your position?

A. MR. LEVSON: No. Let me just take a minute to explain what that clarification is about in item 6 on the same page.

All we were saying there with that revision, is that during the course of construction, when the TFO is building the facilities for the customer, the current practice is that before major construction starts, the customer has to put up the customer contribution.

So what we're saying is that that practice should continue. And at the time when the facility is interconnected, like the last part of that sentence on line 10, the time of interconnection, energization, when it becomes used and useful, at that time the Rider 1 could be initiated, so the -- if it meets the tests.

And so the contribution that was made earlier in the project during that period would be refunded to that customer. And there's a very clear reason for this, and that's that the default risk that we had contemplated during the course of developing this rider, we considered to be minimal, because it was after the facility was energized. We did not want -- we do not want customers to have to bear the default risk during the construction period of a plant. That is the time when default is more
likely to happen. Plans can change; customers, you know, are in financial difficulties.

So that's the fine-tuning that we did that revision.

Does that assist you, Mr. Ross?

Q. Yes, it does, sir.

Mr. Kostesky, in your opening statement, you indicate that there might be a possible change to prepaid operation and maintenance costs. Correct?

A. MR. KOSTESKY: Yes.

Q. However, the Commission's predecessor, the AEUB, previously decided to impose a 12 percent prepaid operation and maintenance charge for standard transmission facilities; correct?

A. MR. KOSTESKY: That's correct, but it's under a review and variance application today.

Q. But that decision is currently in force; correct?

A. MR. LEVSON: That's correct. The customer today would pay that 12 percent --

Q. Thank you, Mr. Levson.

A. MR. LEVSON: -- subject, to, of course, the review and variance application.

Q. Thank you, sir. Can we agree that the AESO, A-E-S-O for the record, may not be filing its 2010 tariff until at least the third or fourth quarter of 2009?
A. MR. KOSTESKY: Yes.

Q. Mr. Kostesky, it may well be later than that? It may well be early 2010, even into the first and second quarter of 2010; correct?

A. MR. KOSTESKY: Again, I can't speculate as to when it will be. That's in the AESO's camp. But every indication we've got from them, it will be in the second or third quarter of 2009.

Q. Mr. Levson, you've been involved in a number of Alberta Utilities Commission and AEUB hearings; correct?

A. MR. LEVSON: Yes.

Q. In your experience, a Commission hearing on a GTA may not take place until several months after filing; correct?

A. MR. LEVSON: Yes, the filing would trigger the process, and it could be a few months before you get into a proceeding, the oral part of the proceeding, anyways.

Q. Thank you, sir. A Commission decision on the AESO 2010 GTA could be issued several months even after that, after that oral hearing; correct?

A. MR. LEVSON: Yes, the kind of rule of thumb that we understand is that within 90 days of the close of the hearing, the Commission will render a decision. I'm not saying that that always happens, but that's roughly the rule of thumb we use.
1 Q. So, sir, to the extent that Rider 1 is dealt with in
2 this Commission's decision in a future AESO GTA, it may be
3 a year or more from today before a decision on Rider 1 is
4 rendered; correct?
5 A. MR. KOSTESKY: Yes, that's possible; but
6 we've also addressed that in our opening -- in my opening
7 statement, indicating that the Commission can initiate an
8 earlier module of that AESO 2010 GTA, if it found a sense
9 of urgency to deal with the management fee issue in front
10 of it today.
11 Q. Mr. Kostesky, can you explain to me what evidence the
12 AESO has filed in this proceeding -- the AltaLink '9/'10
13 GTA, with respect to a potential modulized or modular
14 hearing on Rider 1?
15 A. MR. KOSTESKY: They have not, to my
16 knowledge.
17 Q. Thank you, sir. Mr. Kostesky or Mr. Levson, both of
18 you are familiar with the AESO's 2010 GTA stakeholder
19 process; correct?
20 A. MR. KOSTESKY: Yes.
21 Q. That process is not yet complete; correct?
22 A. MR. KOSTESKY: It is ongoing; that's
23 correct.
24 Q. As a general principle, an ongoing GTA stakeholder
25 process could involve, among other things, consultation
working groups; correct?

A. MR. KOSTESKY: Yes, that's correct.

Q. Stakeholders meetings?

A. MR. KOSTESKY: Yes.

Q. Policy recommendations?

A. MR. KOSTESKY: I'll leave the mic on. Yes.

Q. Revisions to those recommendations?

A. MR. KOSTESKY: Yes.

Q. Further AESO consultation?

A. MR. KOSTESKY: Typically, yes.

Q. Therefore, can we agree that the AESO's as yet incomplete stakeholder consultation on its 2010 GTA may be an extensive and time consuming process?

A. MR. KOSTESKY: I can't comment on whether it will or won't. They're initiating their process, and they have established a need to populate working groups to deal through these issues.

However long those working groups take to get through the issues will determine the timeline on, you know, providing those recommendations to the AESO for their application.

Q. Fair enough. But that list of related process we've talked about, that takes time; doesn't it? That takes significant time?

A. MR. KOSTESKY: I won't agree with
"significant." It takes time.

Q. All right. Proposals within the AESO's GTA stakeholder process may ultimately not be filed as part of its GTA; correct?

A. MR. KOSTESKY: Yes.

Q. It's the AESO and not TransCanada or TCE who controls the content and timing of the AESO GTA 2010 filing; correct?

A. MR. KOSTESKY: Yes, that's correct.

Q. So on the basis of that, it's possible, is it not, that Rider 1, in the form you propose, may well never get before this Commission as part of the AESO's 2010 GTA?

A. MR. KOSTESKY: I guess in absolute terms, that's a possibility, yes.

A. MR. LEVSON: Let me just add to that: that a lot of work has gone on in this matter for coming up a year now, dealing with these issues. And when you look at the evidence that we did file in this through the AltaLink working group, which was expanded to include virtually everybody in the industry towards the end of that process, there was a lot of support for the proposal; and the AESO was a part of that; and the AESO has brought that forward.

There is a document available on the AESO Website, that we could provide, that outlines where they're
at and shows Rider I. It's a serious -- it's a serious proposal, Mr. Ross, and we expect to see AltaLink as well as ourselves supporting it.

Q. I appreciate that, Mr. Levson. But I thought we had agreed that proposals within the AESO's GTA stakeholder process may be subject to change -- correct -- before ultimately being filed by the Commission?

A. MR. LEVSON: Yes, absolutely, as we go through this process, we'll look at all of these things that have been discussed this morning, around the ten years, the 20 years, the various aspects of it. We will try to come up with best proposal possible, and hopefully we, including the AESO -- the AESO will take that forward.

But I have not heard -- even the one party that was opposed in the AltaLink process was not opposed to -- in their discussions with me -- they were not opposed to Rider 1 in principle; they just wanted it to be dealt with in the AESO GTA, is what they've indicated to me.

So I think this idea is fairly simple. It seems to have fairly wide support. I'm not saying everybody agrees with it, but I think -- my judgement is this is going forward; this is very likely going to happen.

Q. But there is a chance that it may be subject to change or may not reach this Commission at all in the form of Rider 1; correct?
A. MR. LEVSON: It's absolutely possible that that could happen. You know, anything in the future -- it's hard to say anything will happen for sure in the future.

MR. ROSS: Thank you, sir. Thank you for your time. I have no further questions for this panel.

THE CHAIR: Thank you, Mr. Ross.

MS. RAMDIN: Thank you, Ms. Ramdin.

MR. RAMDIN QUESTIONS THE PANEL:

Q. Good morning, panel. Mr. Kostesky, I think it was you this morning with Mr. Ross, and you were discussing the scenario analysis that you did, three different scenarios?

A. MR. KOSTESKY: Yes, I recall that.

Q. I recognize this was not previously filed in evidence; however, it was raised on the record, and we feel that it could be of assistance in further understanding the issues raised by these witnesses.

So in the interest of fairness to the applicant, we'd ask that perhaps you file this as an undertaking. The applicant would be allowed to propose questions -- or the applicant would be allowed to pose questions in writing on this documentation.

MS. BERGE: I think we can undertake to provide that, to assist the Commission.

MS. RAMDIN: Thank you.
V. KOSTESKY, D. LEVSON
- Questioned by Mr. Ramdin

UNDERTAKING - TO PROVIDE THE THREE SCENARIOS

1 C.
2 DISCUSSED.
3 Q. MS. RAMDIN: Does TransCanada share
4 AltaLink's view that a margin-owned CIAC is warranted, or
5 is TransCanada proposing Rider 1 on the basis that AltaLink
6 has claimed there's a problem that needs to be addressed?
7 A. MR. KOSTESKY: TransCanada is sympathetic to
8 the position that AltaLink is in with the increasing levels
9 of CIAC, but we feel that the management fee may not be the
10 most effective way of dealing with it. Hence, we've put
11 forth Rider 1 as an alternative worth considering.
12 And we feel that the Rider 1 will address
13 not only the TFOs' concerns, but also the customer's
14 concerns.
15 Q. Thank you. On page 2 of your opening statement,
16 TransCanada states:
17 "TransCanada believes that a sufficient number of
18 customers with CIAC amounts will qualify and opt
19 for Rider 1, so that the TFO's concerns of having
20 the CIAC as a large percentage of their rate base
21 will be addressed."
22 What is "a sufficient number of customers"?
23 A. MR. KOSTESKY: We don't have a specific
24 number, because we don't have access to how many actual
25 customers comprise of the amounts that are on the TFO's
books for CIAC. But we would expect that through the creditworthy test and with the discretion of the AESO or the TFO to finance these amounts, that we would bring the ratio of the CIAC to rate base below what has been referred to as the "bright line 10 percent." I think that's what we are referring to, is "sufficient," maybe is the right word, number of customers to affect the ratio in a positive way.

Q. Thank you. Can you please turn up Exhibit 111.01, which is IR response ASBG/PGA-TCE 2 C.

A. MR. KOSTESKY: That was 2 C?

Q. Yes, it was.

A. MR. KOSTESKY: Yes, we've got it.

Q. I'm looking at the bottom of page 2; and in speaking about Rider 1, TCE states that it does not anticipate that the administration required would be significantly different than that required for the management fee, particularly if the management fee is administered on an individual customer basis.

I was wondering if you could describe what your understanding is of the administrative complexity that would be required by either AltaLink or the AESO if the management fee proposal were adopted.

A. MR. LEVSON: Let me take a crack at that.

So that statement, of course, is conditioned
on the assumption that the management fee goes to the
individual customer that caused the contribution in the
first place.

That is a matter that we believe will be
debated if this management fee is approved; will need to be
debated in the AESO GTA, because right now it's just, as we
understand, a lump sum amount.

If it does go to the individual customer,
then the TFO will need to track the management fee for each
customer on their books. And so they will have to do that
customer by customer, specifically, which they would have
to do with our proposal as well.

Q. Mr. Levson, in your discussion this morning with
Mr. Unryn, you described a scenario where a large customer
receiving Rider 1 treatment of a customer contribution goes
bankrupt.

In your explanation, you seemed to suggest
that AESO customers can take comfort from the fact that the
bankrupt entity would still have assets, and that the next
purchaser of the assets would still require electrical
service; is that correct?

A. MR. LEVSON: Yes, that's right.

Q. In this scenario, would the new purchaser of the
bankrupt customer's operations resume with the bankrupt
customer's Rider 1? Or should the new customer revert to a
lump for any unamortized portion of the contribution?

A. MR. LEVSON: That's a good question. I don't know that we have thought about that detail a lot, but I would -- the common sense would suggest at least one test would be the creditworthiness of the new customer that's taking over those assets. So if they were deemed to be creditworthy, then it would make sense that they could just continue on with payments.

If they weren't creditworthy, then a lump sum would be appropriate at that time.

Q. Thank you. I think, staying with you, Mr. Levson, also in your discussion with Mr. Unryn this morning, you were discussing the possible conversion of legacy contributions into Rider 1 payments. You suggested that these conversions might also be limited to the creditworthy customers.

Could you perhaps provide a ballpark estimate of the proportion of legacy contribution on AltaLink's books that would be sufficiently creditworthy to be converted to Rider 1 payments?

A. MR. LEVSON: That would be very difficult for us to do. We don't even know, really, the names of the customers that have these contributions. We would know TransCanada's, of course. But that's information that would be available to the AESO or to AltaLink.
But if it's of assistance to you, in general, I would say, again, that the type of customers that attach at a TFO level -- you know, you're talking 10 to 25 to 50 megawatts, typically -- these are very large loads with large plants behind them, typically, if they're industrials; if they're DFOs, of course, we understand their circumstances.

So I think the bulk of them are going to be creditworthy, but on the load side. A little bit more concern we would have on the STS side, on the supply side. Because some of those customers, such as wind and biomass -- would be examples -- would be perhaps more on the edge financially. So that's where that creditworthiness test would be very important to be applied.

Q. Does the TFO maintain a record of the identity of customers who have contributed assets on their books?

A. MR. LEVSON: I believe we answered that in one of the information responses; but, yes, it's our understanding that they do.

I think the reason they do is that they have to be prepared to refund it if those assets are shared with somebody else or, you know, circumstances like that arise.

So it's my general understanding, from my previous employment, I guess, that that is the case.
Q. Thank you. On Tuesday, Ms. Wall was speaking with Mr. Frehlich, and she posed a question in relation to AltaLink's station service PSRM project, S-2-18. And it was in the transcript, and it was Volume 7 of the transcript -- and I don't think you need it, but if you do, just let me know -- around pages 1141 to 1142.

Mr. Crnkovic stated that the AESO had adopted a new standard for 240 kV substations. Are you familiar with this new standard?

A. MR. LEVSON: No, I don't think we are.

MS. RAMDIN: Okay. Thank you, that's all my questions. Please answer the questions of the Commission Panel.

THE CHAIR: Thank you, Ms. Ramdin.

Mr. Kolesar?

MR. KOLESAR QUESTIONS THE PANEL:

Q. Thank you, Mr. Chairman. I'm almost afraid to ask any questions, but I will try anyway. I just have two, I think two.

I was a little unclear, gentlemen, your answer to the first question from Ms. Ramdin about whether or not you agree in principle that the TFO should be allowed to make an equity return on their CIAC.

A. MR. KOSTESKY: That's a very good question.
And I think, when you look back at the levels of the CIAC amounts, they didn't seem to be as problematic until they hit a fairly high level, relative to rate base. And one can look at the absolute levels as well.

So it appears that when you get above 10 percent -- and that's 10 percent of the rate base -- it becomes perhaps problematic from the TFO. So although they're sympathetic that they have these assets that aren't earning a return, we think that with a larger rate base or a lower CIAC amount, or even both, and if we fall below the 10 percent, that the concern significantly diminishes to the levels they were before we got to, you know, this concept of having a management fee provide a return.

So I would say that if the trend conditions, it's something that needs to be addressed, but there's many ways to address that concern.

Q. Thank you for that very pragmatic answer, but it kind of skirts what I really asked you. In principle, as a matter of principle, do you agree with Dr. Cicchetti that the TFO should be able to earn an equity return on CIAC?

A. MR. LEVSON: Yes, I don't -- I don't think, in principle, we would agree that appropriate level of compensation for the TFO, should this Commission determine that a management fee is appropriate, is at that
level. It's the return on equity; plus, as I have said, it's the income tax component. When you look at those numbers, they're very large, relative to virtually -- like, there is no additional service that we're getting. So we really struggle with the level.

Other parties, and in the ATCO case, other parties there as well, put forward alternate calculations for the management fee that are considerably lower and more reasonable, in our view, for what we think this kind of problem would attract.

But just to come back to Mr. Kostesky's comments, we just think there's a way better way to solve this problem.

Q. Okay, I guess I will let that line of questioning go for now.

I have a question about the mechanics and, in particular, the mechanics of your proposal that the legacy or embedded balance of CIAC -- it could be converted to a Factor I. I'm wondering if you could enlighten me somewhat on exactly how the mechanics of that might work.

A. MR. KOSTESKY: So just so that I understand the question correctly, if we were to run through a scenario of an unamortized CIAC balance that's on the books today with an asset that's up and running -- and let's say that the asset has been running for three years, and
there's some unamortized components sitting on the TFO books that would convert to Rider 1. Is that the question?

Q. Yes, I'm trying to figure out how the conversion would work. So just so we are sure we're talking about the same thing, if there's a particular company that has an unamortized balance and they want to convert it to Rider 1, how would the mechanics of that work?

A. MR. KOSTESKY: So in the undertaking, we'll provide some tables as to how those are calculated.

But, in essence, if we just assume, for sake of this discussion, that there's an unamortized balance of a million dollars, the TFO would raise the funds or take it out of their existing pool and pay the customer the million dollars in return for a Rider 1 obligation of payments amortized over the life of the asset or the remaining life of the asset, which would be the return on and the return of the million dollars that the TFO would give to -- refund back to the customer.

Q. So the TFO has to raise the money to pay it back to the customer so the customer can, in turn, turn it into a Rider 1? Is that what would happen?

A. MR. KOSTESKY: In essence, yes, that's what would happen, is that the TFO would then fund the repayment in return for an amortized payment stream.

Q. Where is the TFO getting the money from?
A. MR. KOSTESKY: They can get it either from internally generated funds or from obtaining financing in the external markets, just as they do with normal rate base additions. This would just be another component of financing for them.

Q. Just two more quick things. One is, given the discussion at this proceeding with respect to the deteriorating metrics for AltaLink, does this make sense at this time?

A. MR. KOSTESKY: Well, I'd refer to Exhibit 226, which is an AltaLink undertaking to provide the calculation relating to how the matters discussed would have an impact on the credit ratings. And my reading is -- is that it would actually be supportive of the credit metric.

I think the fundamental reason why it would be supportive -- when you kind of read it through and summarize -- it's because the asset is immediately generating cash flow.

Q. Okay. And my last question is: In the mechanics of the conversion of the remaining balance of CIAC to a Rider I, there's an assumption in there that in the TFO's accounting, they have actually kept track of every single company and all the balances for every single company. Do we know that they have actually done that, or is it just
one big account, and you dump all your CIAC in there and
you gradually amortize it? Do we know that the companies
would actually be in a position to do that?
A. MR. LEVSON: Let me take a crack at that
one. It's a good question. We're not the TFOs, obviously,
so we're not apprised of all of the details of their
accounting practices.
   As I said earlier to Ms. Ramdin, it's our
understanding that they have to keep track of the
contribution, the original contribution.
   So what I think you're pointing to is do we
know how that contribution has been amortized over time so
they will know when it came in and how much it was. So
maybe, say, three years later, they will have to do a
calculation.
   The piece that they need to have is the
amortization of the contribution. That number, from my
understanding of how the TFOs work, is a number that's
approved. Like it's a number -- it's usually around 3
percent. I think I have seen numbers that are 3.5 and 3.7,
but it's a known number. So they would take that
percentage, apply it to the original contribution for the
number of years that that amortization was in place and
then end up with an unamortized balance. In the case of a
million dollars, it might be say $900,000.
So I think that's a calculation that they can do fairly easily because the amortization rates are used across the board for the contributions. That's my general understanding.

A. MR. KOSTESKY: If I might add to that. I certainly know who does have the numbers, and that's every customer. TransCanada has an account of what we've contributed into that account. So that's a pretty good starting point as well.

MR. KOLESR: All right. Thank you very much. That concludes my questions, Mr. Chairman.

THE CHAIR: Thank you, Mr. Kolesar.

Mr. Lyttle?

MR. LYTTLE QUESTIONS THE PANEL:

Q. Thank you. Good morning, panel. Just a few.

On that section, lines 15 to 17, which is I think in your evidence, you don't have to turn to it, but it's point number 9.

"Unamortized balances of existing contribution could be converted to Rider I on a one-time basis, so those are the historic ones, at some point after Rider I is approved and with the approval of the TFO and AESO at those parties' sole discretion."

I was wondering where the customer's
discretion comes into this. You didn't mention that, and I don't know if you include that in another part of your -- but I just picked up that obviously on an historical basis, and with all the different tax treatments, et cetera, that customers have, there would be a lot of consideration of what they want.

A. MR. LEVSON: Yes, the discretion that the customer exercises is a decision whether he wants to apply for Rider I or not. He may take into account all the considerations that you mentioned, his tax situation, his cost of capital.

Q. But these are for the historical legacy assets I think we're talking about here.

A. MR. LEVSON: That's correct.

Q. So the customer would still have to apply. That would be the process with the application?

A. MR. LEVSON: That's right. He would apply for Rider I and then the AESO would be the first test to see if he's creditworthy, and then if he passes that test, then it would go to the TFO to determine whether they can handle it in their financing. As we said before, they could say yes or they could say later or they could --

Q. So legacy assets would only be converted at the first discretion of the customer?

A. MR. LEVSON: That's right, yes. To be
clear, this was one of the trade-offs. There was a recommendation, a caveat in one of the working group members that it be forced on customers, that they had to convert to Rider I and we just didn't think that would work with the creditworthiness test at the same time.

How can you, one, say we're only going to give it to you if you're creditworthy, but oh, by the way, you have to take it. So we just didn't think that worked, so we've given the discretion to the customer initially.

Q. Right, thank you.

If you can turn up EPS 1-11, I think it's Mr. Unryn's IRs back and forth, 12-1 C. And there you were talking about the STS and DTS customers, but a line at the bottom caught my attention. I will read you the whole paragraph. It's just two lines:

"As a result of the foregoing, STS customers should be availed the same amortization options as DTS customers. Furthermore, the Rider I proposal places STS customers who meet the AESO creditworthiness test on a more level playing field with PPA generation."

That last line, could you explain that or expand upon that some more.

A. MR. LEVSON: Mr. Lyttle, I don't think we have the same reference here. We're in 12 and I couldn't
see those --

Q. 12-1.

A. MR. LEVSON: 12?

Q. So EPS 111, 12-1 and your answer C. It's the last -- it's just before item 2, the last paragraph.

A. MR. LEVSON: I'm sorry, sir, it was the last paragraph, C, the one that starts out "as a result of"?

Q. The last paragraph, the very last line, referring to PPA generation and the more level playing field. Could you expand on that?

A. MR. LEVSON: Yes, certainly.

Q. Where is that going?

A. MR. LEVSON: Well, you know one of the things that the AESO look for in a market is levelness between various generation players, and right now, all of the PPA generation has the cost of interconnection spread over time through the RGUCC payment. So they did not have to make an upfront payment for that.

Today, a new generator coming on the system has to pay 100 percent of the cost upfront. And that is an area of discipline that Mr. Unryn and I didn't get into, but that definitely is an area of discipline, that total capital amount.

So if there was an opportunity to levelize
it, it puts it on a similar financial basis as to what the PPA generation enjoys.

Q. So you're really talking about historic -- legacy people versus new entrants?

A. MR. LEVSON: That would be a reasonably fair characterization of it, yes.

A. MR. KOSTESKY: But the comment here, Mr. Lyttle, was to level the playing field between the PPA generators or the buyers of the PPA output and non-PPA generators. That was what the context of that comment was for, but on all for legacy assets because the PPAs were struck in 2001 and there is no new PPAs per se.

Q. Okay, thank you.

The last area that I wanted to look at was on this default risk idea, I note that you had said default risk is managed down by having a large number of customers that you spread it over. You said that at the start. I think that was part of your opening statement.

I know I worry more about systemic risks than I ever worry about individual risks, because correlated risks I'm sure we've had lots of information here about that during the hearing, and how things tend to fall over all at the same time, but I was thinking about -- in relation to Mr. Unryn's question about the risk -- and there is some residual risk, as you even admit by only
admitting creditworthy customers to be available for the Rider I program, but in the risk in the Rider I program, I was thinking of the difference between a plant that has no CIAC people in it and a plant that does have some 10 or 20 percent. When both of those go bankrupt, the risk is still on the whole component of that plant that's there and that's the risk that is already present and the whole system bears. And the only difference that we're looking at here is that a portion of that whole risk is not going to be prepaid. Am I viewing that correctly?

A. MR. LEVSON: Yes, think that's correct.

Customer A who had a $10 million cost and investment completely covered it, they have no contribution, compare that to customer B. Say they had a $12 million contribution, 10 million is covered by the investment policy. So there's 2 million CIAC, which is prepaid, in my example. And if both of those customer A and customer B go bankrupt and there's nobody picking up the assets and so we're left with those assets to be recovered, they're both going to be recovered in the same way through -- the rest of the customers are going to have to bear the cost of whatever can't be recovered through salvage and so on. So the extra risk is going from the 10 to the 12.

Q. But the system already has the risk on the main plants?
A. MR. LEVSON: That's our understanding.

That's certainly the TFO's understanding. That's my understanding. The only caveat I would have in that is because we haven't had one of these happen, we really don't have a precedent, but I find it very difficult to figure out how you can take that default and land it with anybody other than the rest of the system. I don't think you can move it back to the TFO under the current structure.

Q. Yes, I think it's beyond me. Maybe the credit rating agency's will have a go. I'm sure they find default risk anyways. Anyways, thank you for your answers today.

A. MR. LEVSON: You're welcome.

THE CHAIR: Thank you, gentlemen. That's all of our questions.

Ms. Berge, Ms. Duffy, do we have redirect?

MS. BERGE: No thank you, Mr. Chairman.

We have nothing.

THE CHAIR: Wonderful. Once again, thank you for being here with us today. Thank you for your direct answers. You're dismissed.

(THE PANEL STANDS DOWN)

THE CHAIR: So we are now at 5 to 12. I actually would like to start the panel and get on with the show. So I understand we have --

Is Mr. Marcus the next up, Ms. McKenzie; is
Undertaking:

To provide the three scenarios discussed at pages 1553 and 1554.

Response:

TransCanada has conducted a comparative analysis of the costs that would arise from a customer perspective under the following three scenarios:

1. Status Quo - CIAC payments continue to be assessed based on the current AESO tariff and financed by the customer utilizing the same cost structure as the TFO.

2. Management Fee - Status Quo plus AltaLink's proposed Management Fee.

3. Rider I Alternative - The CIAC payment is converted to a traditional cost of service payment over time through the Rider I mechanism. The TFO invests in the asset and costs are recovered from the customer through Rider I payments. No Management Fee is payable.

Assumptions:

TransCanada’s analysis is based on Table 3 of AltaLink's Rebuttal Evidence at page 57 [Exhibit 135.01]. For comparative purposes, TransCanada assumed the following:

- the CIAC amount is $1,000,000.
- the customer's cost of capital is the same as AltaLink's. For the analysis, a debt/equity ratio of 60/40 was assumed and a return on equity of 8.75%.
- the cost of the Management Fee would be assigned to the customer that triggered a Customer Contribution; however, who would ultimately pay the Management Fee has yet to be resolved. Regardless, some group of customers will be required to pay this amount.
- the Rider I Alternative repayment term is 30 years to provide comparability with Scenarios 1 and 2. Although TransCanada proposes a shorter term in its Rider I Alternative, the outcome, in present value terms, does not change whether 20 or 30 years is used for the repayment term.
Table 1 - Comparison of AltaLink Management Fee Proposal to Status Quo and Rider I Alternative
Prepared by TransCanada

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<th>Scenario 1</th>
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<td>Status Quo</td>
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<td><strong>Nominal Dollar Comparison</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
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<td>$2,275,867</td>
<td>$0</td>
</tr>
<tr>
<td>Management Fee - Payments over 30 years</td>
<td>$-</td>
<td>$753,472</td>
<td>$-</td>
</tr>
<tr>
<td>Rider I - Payments over 30 years</td>
<td>$-</td>
<td>-</td>
<td>$2,275,867</td>
</tr>
<tr>
<td><strong>Total Customer Cost</strong></td>
<td>$2,275,867</td>
<td>$3,029,339</td>
<td>$2,275,867</td>
</tr>
<tr>
<td><strong>Percentage increase from Status Quo</strong></td>
<td>0%</td>
<td>33%</td>
<td>0%</td>
</tr>
</tbody>
</table>

| **Present Value Comparison**<sup>2</sup> |            |            |            |
| Customer costs:        |            |            |            |
| Customer Contribution  | $1,000,000 | $1,000,000 | $0         |
| Management Fee         | $-         | $373,697   | $-         |
| Rider I                | $-         | -          | $1,000,000 |
| **Total Customer Cost** | $1,000,000 | $1,373,697 | $1,000,000 |
| **Percentage increase from Status Quo**              | 0%         | 37%        | 0%         |

**Notes:**
1. In TransCanada's analysis, nominal dollars represent the sum of the amounts that are incurred in each year of expenditure.

2. In TransCanada's analysis, present value calculates a series of payments discounted to reflect the time value of money according to a discount rate. In this comparison, the present value payments were calculated using a discount rate of 8.2314% (the 2009 Pre-Tax Rate of Return in Table 3 of AltaLink's Rebuttal Evidence at page 57).
## Scenario 1 - Status Quo

Prepared by TransCanada

### 2009 Pre-Tax ROR (30 Years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal at Beginning of Year</th>
<th>Payment of Principal (Return Of Investment)</th>
<th>Annual Return (Return On Investment)</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$1,000,000</td>
<td>$33,333</td>
<td>$82,314</td>
<td>$115,647</td>
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<tr>
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<td>$33,333</td>
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<td>$33,333</td>
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<td>$33,333</td>
<td>$33,333</td>
<td>$2,744</td>
<td>$36,077</td>
</tr>
</tbody>
</table>

Total: $1,000,000 $1,275,867 $2,275,867

Present Value: $367,213 $632,787 $1,000,000

**Notes:**

1. The annual Payment of Principal is $1,000,000 divided by 30 years.

2. The annual Return "On" Investment is calculated by multiplying the principal at the beginning of each year by 8.2314%. 

---

*Table: Payment of Principal and Return on Investment* 

- **Year**: Represents the year in the scenario. 
- **Principal at Beginning of Year**: The principal at the beginning of each year. 
- **Payment of Principal (Return Of Investment)**: The payment made at the end of each year. 
- **Annual Return (Return On Investment)**: The annual return calculated by adding the payment to the annual return. 
- **Sum**: The total amount at the end of each year by adding the payment and the return.
### Scenario 2 - Status Quo Plus Management Fee

Prepared by TransCanada

2009 Pre-Tax ROR (30 Years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal at Beginning of Year</th>
<th>Payment of Principal (Return Of Investment)$^1$</th>
<th>Annual Return (Return On Investment)$^2$</th>
<th>Sum</th>
<th>Management Fee$^3$</th>
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</tr>
<tr>
<td></td>
<td><strong>Total:</strong></td>
<td><strong>$1,000,000</strong></td>
<td><strong>$1,275,867</strong></td>
<td><strong>$2,275,867</strong></td>
<td><strong>$753,472</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Present Value:</strong></td>
<td><strong>$367,213</strong></td>
<td><strong>$632,787</strong></td>
<td><strong>$1,000,000</strong></td>
<td><strong>$373,697</strong></td>
</tr>
</tbody>
</table>

Notes:

1. The annual Payment of Principal is $1,000,000 divided by 30 years.

2. The annual Return "On" Investment is calculated by multiplying the principal at the beginning of each year by 8.2314%.

3. The Management Fee is calculated by multiplying the principal at the beginning of each year by the equity portion of the return (adjusted for income tax) of 4.8611%. (40% * 8.75% / (1 - 0.28)). Note that TransCanada’s total of $753,472 does not match exactly with Dr. Cicchetti's value at the top of page 58 of AltaLink’s Rebuttal Evidence primarily due to differences in the equity portion (38% versus 40%). 40% was used to maintain consistency between the Scenarios.
Scenario 3 - Rider I Alternative
Prepared by TransCanada

2009 Pre-Tax ROR (30 Years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal at Beginning of Year</th>
<th>Payment of Principal (Return Of Investment)(^1)</th>
<th>Annual Return (Return On Investment)(^2)</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>$33,333</td>
<td>$33,333</td>
<td>$2,744</td>
<td>$36,077</td>
</tr>
</tbody>
</table>

Total: $1,000,000 $1,275,867 $2,275,867

Present Value: $367,213 $632,787 $1,000,000

Notes:

1. The annual Payment of Principal is $1,000,000 divided by 30 years.

2. The annual Return "On" Investment is calculated by multiplying the principal at the beginning of each year by 8.2314%.
AML – TCE 1

Reference: Exhibit 0271.01 TransCanada Energy Ltd.’s (“TransCanada”) response to undertaking at transcript reference volume 9, page 1576

Request:

Confirm that it is unlikely that customers' capital structures and costs of capital will be the same as AltaLink's.

Response:

Although TransCanada is not aware of particular customers’ capital structure and cost of capital, TransCanada agrees that it can be reasonably assumed that the cost structures and costs of capital of AESO customers will not be identical to AltaLink’s. However, such cost structures and costs of capital may be similar, depending on the type of entity involved.

The reason TransCanada used a constant cost structure and cost of capital in its analysis was to allow an appropriate comparison of the costs of the proposed Management Fee to the Status Quo or Rider I. Regardless of the cost of capital assumed for the customer, the Management Fee proposal will be more expensive to the customer than the Status Quo. In situations where a customer’s cost of capital is greater than or equal to AltaLink’s cost of capital, the Management Fee proposal will be more expensive to the customer than the Rider I proposal.1

---

1 For cost comparisons from a customer’s perspective, TransCanada used the customer’s assumed cost of capital as the appropriate discount rate for all present value calculations.
AML – TCE 2

Reference: Exhibit 0271.01 TransCanada Energy Ltd.’s (“TransCanada”) response to undertaking at transcript reference volume 9, page 1576

Request:

Confirm that for any customers that do not hold "A" category credit rating, it is reasonable to assume that such customer's cost of capital will exceed AltaLink's cost of capital.

Response:

TransCanada is unable to provide a specific opinion as to the impact of credit ratings on customers’ cost of capital, as the cost of capital will be affected by a number of different variables. To the extent that a customer’s credit rating is lower than the “A” category, TransCanada would generally expect that its cost of capital will be higher than where the credit rating is “A” category or higher, all else being equal.
IN THE MATTER OF the Alberta Utilities Commission Act, S.A. 2007, c. A-37.2,

IN THE MATTER OF the Electric Utilities Act, S.A. 2003 c. E-5.1;

AND IN THE MATTER OF an application by AltaLink Management for the approval of its revenue requirement, deferral and reserve accounts for the period commencing January 1, 2009 to December 31, 2010;

AND IN THE MATTER OF Application No. 1587092, Proceeding No. 102.

Final Argument
of
TransCanada Energy Ltd.

June 15, 2009
1.0 MANAGEMENT FEE ON CONTRIBUTIONS IN AID OF CONSTRUCTION

1.1 Introduction

1.1.1 TransCanada Energy Ltd. ("TransCanada") has participated in AltaLink Management Ltd.'s ("AltaLink") General Tariff Application ("GTA") to respond to AltaLink’s Management Fee proposal. As such, TransCanada’s argument will be limited to addressing the Management Fee requested by AltaLink and TransCanada’s proposed alternative, Rider I.

1.1.2 TransCanada submits that AltaLink’s proposed Management Fee should be denied. The more appropriate manner in which to deal with AltaLink’s concerns regarding an inability to earn a return on assets currently funded by customers through Contributions in Aid of Construction ("CIAC") is to permit transmission facility owners ("TFOs") to invest in these assets and earn a return over time. TransCanada has proposed that this be done through Rider I, which would be less costly to customers than the Management Fee proposal and would better balance the interests of TFOs and customers.

2.0 NEED FOR MANAGEMENT FEE

2.1 TransCanada submits that the proposed Management Fee is not needed because there is a superior solution to the issues underlying the Management Fee proposal. TransCanada acknowledges that CIAC may be problematic for TFOs to the extent that CIAC amounts grow significantly relative to the TFOs’ rate base;\(^1\) however, increasing CIAC payments are also a concern from a customer standpoint, as customers are required to make increasingly large up front contributions for assets over which they have no ownership or control.\(^2\) Rider I would be a less costly mechanism that, unlike the Management Fee, would address the concerns both of TFOs and customers by aligning investment with ownership and control.

2.2 Further, there are additional factors that should address AltaLink’s concerns by lowering CIAC as a percentage of rate base, including:

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\(^{1}\) Transcript page 1582, lines 1 through 16; page 1576, lines 7 through 14.

\(^{2}\) Exhibit 256; Exhibit 110, Attachment AUC-TCE 1(a) at page 16 (page 10 in Appendix A).
i. The Alberta Utilities Commission (the “Commission”) is currently considering a review and variance application in relation to the 12 percent prepaid Operating and Maintenance charge within the context of the Alberta Electric System Operator’s (“AESO”) contribution policy. If the Commission removes this charge from the AESO investment in standard facilities, customer contributions will be further decreased;3

ii. Completion of AltaLink’s predicted major capital projects over the next several years will result in major additions to rate base that are likely to significantly reduce the amount of CIAC relative to rate base;4 and

iii. A change to the current AESO investment policy could also reduce the amount of CIAC relative to rate base.5 Recommendations regarding a change to this policy arising from the AltaLink-led Working Group are being considered as a part of the AESO’s 2010 GTA consultation process.6

3.0 MANAGEMENT FEE PROPOSAL

3.1 The proposed Management Fee would be more costly than the status quo, as it represents a new charge of $5.5 million for 2009 and $7.0 million for 2010.7 For 2010, the total Management Fees applied for by AltaLink and ATCO Electric Ltd. (“ATCO”) are over $12 million.8 If the Management Fee is approved, a specific group of customers will be required to bear the cost of the Management Fee on an annual basis. Contrary to the suggestion of AltaLink,9 TransCanada submits that it would be inappropriate for the Commission to determine which group of customers should bear this cost as a part of this proceeding. The proposed Management Fee, if approved, would form part of AltaLink’s revenue requirement; however, its collection from AESO customers would occur through the AESO’s tariff.10 Therefore, TransCanada submits

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3 Application No. 1566390, Proceeding ID 108.
4 Exhibit 256.
5 Transcript, page 448, lines 7 through 25; page 449, lines 1 through 21.
6 Exhibit 110, AUC-TCE Attachment 1(b), page 3; Transcript, page 1572, lines 14 through 21.
7 Exhibit 94, page 2, Table 4.
8 Exhibit 94, page 2, lines 2 through 4.
9 Transcript, page 455, lines 2 through 6; page 455, line 21 to page 456, line 3.
10 Exhibit 111, response to ASBG/PGA-TCE-10.
that the AESO GTA is the proper forum in which to deal with AESO rate design, with input from all interested parties.

3.2 Should the Management Fee be approved, TransCanada anticipates that the issue of who should pay for this significant new cost will be hotly debated in future AESO GTAs.\(^{11}\) In TransCanada’s view, the following are possible outcomes of the question of “who pays” the Management Fee in the event that it was approved:

i. The Management Fee could be allocated to all AESO customers on a pro-rata basis.\(^{12}\)

ii. The Management Fee could be assigned to the specific customer triggering the CIAC amount, in which case the customer will be required to pay its share of the Management Fee in addition to raising its CIAC contribution.\(^{13}\)

iii. Both (i) and (ii) would be affected by the question of whether the Management Fee could be assigned to Demand Transmission Service ("DTS") customers only.\(^{14}\) Section 47(a) of the Transmission Regulation\(^{15}\) requires that the AESO tariff ensure that the “just and reasonable costs of the transmission system” are “wholly charged” to load customers. To the extent that the Management Fee were determined to be a cost of the transmission system pursuant to section 47(a), it would not be permissible under the regulation to charge it to Supply Transmission Service ("STS") customers.

3.3 The question of how a Management Fee would be allocated is an important issue that will have varying impacts on customers, depending on the outcome. TransCanada notes that the question of allocation does not arise with Rider I, as the customer triggering the CIAC payment would be responsible for the Rider I payments.

\(^{11}\) Exhibit 111, response to ASBG/PGA-TCE 10.
\(^{12}\) Exhibit 111, response to ASBG/PGA-TCE 8(a).
\(^{13}\) Exhibit 111, response to ASBG/PGA-TCE 8(a).
\(^{14}\) Exhibit 111, response to ASBG/PGA-TCE 8(a).
\(^{15}\) AR 86/2007.
4.0 RIDER I PROPOSAL

4.1 As a result of the recommendations of the AltaLink-led Working Group, the AESO has advanced the Rider I concept as a part of its consultation for the AESO 2010 Tariff Application and has established working groups to deal with it and other CIAC-related matters. TransCanada notes that there has been significant effort expended to date to develop the Rider I concept by various industry players, and as such, Rider I will likely find support in the AESO GTA process. Indeed, the proposal has the support of AltaLink, who testified that it will continue to support Rider I.

4.2 TransCanada is not applying for approval of Rider I in this proceeding, but has attempted to put forward as much detail as possible regarding Rider I to demonstrate that it is a credible alternative to the Management Fee proposal. It will not reiterate the details of its evidence in this Argument, but addresses below the salient issues regarding Rider I that have emerged through the hearing of this matter.

4.3 Advantages of Rider I

4.3.1 Rider I would provide benefits to both TFOs and customers. Rider I would allow the TFO to invest in the CIAC assets, while providing the TFO with a return of and on its investment, based upon the TFO’s weighted average cost of capital (“WACC”). Rider I would also provide the option, at the TFO’s discretion, to convert the unamortized portion of existing CIAC amounts (“Legacy CIAC Assets”) to Rider I, thereby further expanding the TFO’s rate base through investment in these assets. This aspect of the Rider I proposal will be discussed in more detail below.

4.3.2 In addition, Rider I would give customers required to pay CIAC amounts the opportunity to make amortized payments over a specified period of time. Further, the Management Fee proposal will always be more costly than the status quo and, for customers who have a cost of

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16 Exhibit 110, Attachment AUC-TCE 1(b), page 3.
17 Transcript, page 1572, lines 14 through 21.
18 Transcript, page 1573, line 15 to page 1574, line 3.
19 Transcript, page 457, line 24 to page 458, line 7.
capital that is equal to or higher than the cost of capital of the TFO, the Management Fee proposal will also be more costly than Rider I. Exhibit 271, filed by TransCanada in this proceeding, demonstrated that where the cost of capital is equivalent, the Management Fee cost to the customer was 37 percent higher than either the status quo or under Rider I.

4.3.3 Finally, TransCanada submits that customers that are not affected by CIAC payments will be neutral or better off under the Rider I proposal as compared to the Management Fee proposal. Since Rider I payments will be made by the customer triggering the CIAC amount, Rider I will not impact other customers, subject to the minimal risk of default discussed below. This minimal risk must be measured against the certainty of an additional Management Fee payable each year, which may be borne by customers who did not trigger the contribution. Further, customers may also benefit from AltaLink’s improved credit metrics, as discussed below.

4.4 Default Risk

4.4.1 TransCanada recognizes that there is a risk of default associated with Rider I, as the repayment of the CIAC amount by the customer would occur over time. However, TransCanada submits that this risk of default would be minimal for the following reasons:

i. Rider I would only be available to parties that meet the AESO’s creditworthiness test.

ii. Under the Rider I Alternative, an initial CIAC payment from the customer during the construction period would still be required. TransCanada submits that the construction period is when the risk of default is greatest, as the interconnecting projects may not proceed. Only after the CIAC facilities are used and useful, would the customer be entitled to apply for Rider I. In this way, all Rider I payments, whether related to Legacy CIAC assets or not, would have the same accretive impact upon AltaLink’s credit metrics.

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20 Exhibit 271; Exhibit 291, AML-TCE 1.
21 Exhibit 111, response to ASBG/PGA-TCE 8(a).
22 Exhibit 111, response to ASBG/PGA-TCE 3; Exhibit 94, page 4, lines 7 and 8.
23 Exhibit 94, page 4; Transcript, page 1500, lines 12 through 19.
iii. Default is also unlikely given the nature of the investment by the customer. DTS customers are either DISCOs or large industrials where electricity supply is a minority component of the overall cost structure.\(^{24}\) For STS customers, transmission costs also represent a small proportion of the cost of construction of the generation facility.\(^{25}\)

iv. In the unlikely event of default by these customers, it is probable that other parties would take over the interconnecting load or supply asset and would continue to require access to the grid.\(^{26}\) Upon taking over the interconnecting assets, the new owners would be required to either provide the unamortized payment up front or assume the Rider I payments if they qualified as creditworthy.\(^{27}\)

v. Finally, if the default, however unlikely, were to occur after some period of payments had been made and no party took over the interconnecting load or supply asset, the CIAC facilities could be salvaged for re-use or sale.\(^{28}\) These funds would further reduce the remaining un-recovered portion of payments under Rider I.

### 4.5 Conversion of Legacy CIAC Assets

4.5.1 During the hearing, concerns were raised regarding the conversion of Legacy CIAC Assets to Rider I, including AltaLink’s ability to raise capital for Legacy CIAC Assets and the impact such financing would have on AltaLink’s credit rating. TransCanada submits these concerns have been addressed for the following reasons.

4.5.2 The Rider I proposal would give both the TFO and AESO the discretion to determine whether or not Legacy CIAC Assets would be converted to Rider I.\(^{29}\) If a customer were to apply for a Rider I conversion of Legacy CIAC Assets, the AESO would first determine whether the

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\(^{24}\) Exhibit 111, response to ASBG/PGA-TCE 3(a) and (b).
\(^{25}\) Ibid.
\(^{26}\) Exhibit 111, response to ASBG/PGA-TCE 3(b).
\(^{27}\) Transcript, page 1579, lines 2 through 10.
\(^{28}\) Exhibit 111, response to ASBG/PGA-TCE 3(b).
\(^{29}\) Exhibit 94, page 4, lines 15 through 17.
customer is creditworthy. If the customer was determined to be creditworthy, the TFO would then determine, in its sole discretion, whether it could raise the financing for the investment.\(^{30}\)

4.5.3 If the TFO chose to invest in Legacy CIAC Assets, TransCanada submits that the TFO’s credit metrics would not be negatively impacted. In fact, as demonstrated in Exhibit 226 and testified to by AltaLink,\(^{31}\) the addition of Legacy CIAC Assets to its rate base would be accretive to AltaLink’s credit ratings because these assets are fully constructed and generate immediate cash flow. As discussed below, all Rider I payments, whether for future CIAC assets or Legacy CIAC Assets, would have the same accretive effect.

4.5.4 Finally, as raised in cross-examination by the Alberta Sugar Beet Growers Association and Potato Growers Association, TransCanada recognizes that a fairness issue may arise if the TFO determines it can only finance a portion of the requests that would otherwise qualify for conversion of Legacy CIAC Assets.\(^{32}\) TransCanada submits that mechanisms could be developed to deal with such situations to prevent undue discrimination, such as an apportionment or lottery system.\(^{33}\)

4.6 Optionality of Rider I

4.6.1 Under TransCanada’s proposal, Rider I would not be mandatory. Rather, a customer could decide whether or not to apply for Rider I depending upon its own cost of capital and other factors.\(^{34}\) As a part of AltaLink’s rebuttal evidence, Dr. Cicchetti submitted a revised proposal that is aimed at the optionality of Rider I. His revised proposal would involve the implementation of Rider I, as well as the assignment of a Management Fee to specific customers who did not opt or qualify for Rider I.

4.6.2 TransCanada submits that Dr. Cicchetti’s revised proposal should not be accepted at this time. TransCanada expects that a significant number of customers will be interested in converting to

\(^{30}\) Transcript, page 1588, lines 15 through 25.

\(^{31}\) Transcript, page 476, line 11 to page 477, line 11.

\(^{32}\) Transcript, page 1522, lines 1 through 25.

\(^{33}\) Transcript, page 1523, lines 1 through 11.

\(^{34}\) Transcript, page 1588, lines 7 through 11.
Rider I. As demonstrated in Exhibit 271, the Rider I proposal is less costly for customers who have a cost of capital equal to or greater than the TFO’s and TransCanada would generally expect that a customer’s cost of capital will be higher than that of the TFO. Therefore, through a combination of Rider I and the other factors described in section 2.2, CIAC amounts relative to rate base should fall below and likely well below the “bright line” of 10 percent. TransCanada submits that the question of whether Rider I and the other factors identified in section 2.2 have adequately addressed the concerns regarding CIAC amounts relative to rate base could be examined in subsequent GTA proceedings of the AESO and TFOs. Dr. Cicchetti’s proposal could be reconsidered at that time should it be found to be necessary.

5.0 CONCLUSION

5.1 In summary, TransCanada submits that it has advanced compelling evidence that the Commission should deny AltaLink’s proposed Management Fee in its entirety at this time. The Management Fee is a costly and unnecessary method to resolve AltaLink’s concern regarding the lack of return on CIAC assets. Rider I is presently making its way through the AESO 2010 GTA consultation process and TransCanada anticipates that it will be included as part of the AESO’s 2010 GTA. Rider I will address the concerns of both TFOs and customers regarding CIAC assets by aligning investment with ownership and control. While there is a minimal credit risk associated with Rider I, TransCanada suggests that payments by customers that would be required in the event of default would be dwarfed by the extent of the annual payments required for the Management Fee. Given that Rider I is expected to be before the Commission in the near future, and that AltaLink will have the option to convert Legacy CIAC Assets, there is no need for immediate resolution of AltaLink’s concern. Further, there is evidence that suggests that the extent of the issue may be significantly reduced due to future capital expansions and other potential changes to the AESO tariff and the AESO contribution policy. TransCanada submits that the lack of return on CIAC assets that has caused both AltaLink and ATCO to apply for

35 Exhibit 291, AML-TCE 2.
36 Transcript, page 448, lines 7 through 22; page 1576, line 23 to page 1577, line 8.
Management Fees can and should be resolved on an industry-wide basis before this Commission at the AESO 2010 GTA.

Respectfully submitted.

Calgary, Alberta
June 15, 2009

TRANSCANADA ENERGY LTD.

Per: [Original signed by]
Nadine Berge
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