



November 26, 2009

Posted on AESO website

Participants in AESO 2010 Tariff Consultation
Members of AESO 2010 Tariff Consultation Working Groups
AESO Stakeholders

Dear Stakeholder:

Re: AESO Responses to Stakeholder Comments on 2010 Tariff Proposals

During the consultation meeting on the AESO's 2010 tariff application held on November 3, 2009, stakeholders provided comments on certain proposals included in the AESO's presentation. The AESO has considered those comments, and provides the following responses.

In addition, the AESO has delayed the filing of the 2010 tariff application to mid-December instead of the end-of-November date announced at the stakeholder session. The extension will allow the suggestions of stakeholders to be addressed in the application, as well as further refinement of the proposed tariff and finalization of the application.

The AESO summarizes its responses to stakeholder comments on the 2010 tariff proposals as follows.

1 Provisions Relating to Confidential Information and Dispute Resolution

The AESO proposed that the 2010 tariff incorporate by reference the ISO rule provisions for confidential information and dispute resolution. Written consultation was conducted on this approach for both the ISO rules and the tariff. Stakeholders commented that such incorporation by reference could potentially subject a party to penalties or sanctions under both the ISO rules and the tariff for a single event of non-compliance (sometimes referred to as "double jeopardy"). As well, stakeholders questioned the wording used in the draft terms and conditions to incorporate the ISO rule provisions by reference.

The AESO has further examined this issue and has concluded that no substantive distinctions exist between parties subject to the tariff and those subject to the ISO rules with respect to those provisions. In both cases, the party is a market participant and is subject to all applicable provisions of both the ISO rules and the tariff. As the ISO rule provisions relating to confidential information and dispute resolution are not restrictive, they apply to all information exchanges and all disputes involving the AESO and market participants, including information and disputes related to the AESO tariff. Those ISO rule provisions do not need to be incorporated by reference or otherwise specifically included in the tariff.

To ensure clarity of the applicability of these provisions to parties under the AESO tariff, the AESO will discontinue the use of the term “customer” in the tariff. Instead, the term “market participant” will be used throughout the tariff similar to its current use in the ISO rules. The rates and individual sections of the terms and conditions will describe the applicability of specific tariff provisions to different market participants, where appropriate. Therefore, the AESO tariff will not contain provisions relating to confidential information or dispute resolution, as those matters are addressed comprehensively in the relevant ISO rules.

The AESO considers this approach will bring clarity and consistency to the AESO’s authoritative documents.

2 Treatment of Isolated Generation Fuel Cost in Transmission Operating and Maintenance Cost Study

During Arnie Reimer’s summary of the conclusions of his study of transmission operating and maintenance cost, stakeholders questioned the classification of fuel cost for ATCO Electric’s isolated generation as energy-related. Mr. Reimer has reviewed the classification of that cost, and concluded it should remain energy-related. The cost clearly varies directly with the volume of energy consumed in isolated communities. Classifying that cost as energy-related, and reflecting that classification in the AESO’s tariff, will provide a price signal to reduce energy consumption which will in turn reduce isolated generation costs. Classifying the cost as demand-related or customer-related would provide no relevant price signal and would be expected to have little effect in reducing energy consumption.

The AESO further notes that its revenue requirement includes an isolated generation credit which reflects payments from retailers to the AESO based on pool price for the energy used in communities served by isolated generation, in accordance with the *Isolated Generating Units and Customer Choice Regulation*. The AESO considers that the isolated generation credit should similarly be classified as energy-related, and should offset the isolated generation fuel cost. Depending on the magnitude of the balance of energy-related costs and the charge that would result if those costs were recovered through an energy charge, the AESO will determine whether it is appropriate to propose an energy component for the point of delivery charge in Rate DTS.

3 Treatment of Remedial Action Scheme Costs

In the draft terms and conditions to be included in the 2010 tariff, the AESO proposed that remedial action scheme costs would be considered participant-related (previously termed customer-related) costs rather than system-related costs. Some stakeholders suggested that remedial action scheme costs should sometimes be considered system-related costs. The AESO has reviewed the treatment of such costs, including information presented in the AESO discussion paper on “RAS in the Planning Stage”, published on July 3, 2009. The AESO has concluded it remains appropriate to treat the costs of remedial action schemes associated with a connection project as participant-related costs, for the reasons discussed in that paper and summarized as follows.

The AESO first notes that a remedial action scheme may be implemented as part of a system project. In such a case, the costs would not be associated with a connection project for system access service and therefore would not be considered participant-related costs.

When the AESO receives a request from a market participant for a new system access service, or for an increase to an existing system access service, the AESO makes an assessment identifying the required facilities for and timing of the requested connection. When assessing the request, the AESO may allow a connection to proceed if specific reliability issues in the area are addressed. The AESO may determine that a remedial action scheme can be offered to allow load or generation to connect to the system before the transmission system has been reinforced to provide unconstrained access. If a temporary remedial action scheme is a viable option and is feasible, the AESO may proceed to connect the market participant. The market participant has the choice of delaying their connection until needed facilities are built or accepting a temporary remedial action scheme as a condition of connection.

As a remedial action scheme associated with a connection project is required for the connection of a market participant and is implemented at the choice of the market participant, the AESO considers that the associated costs should be considered participant-related.

4 Interim Refundable Treatment of Current Contribution Policy

Stakeholders suggested that in its 2010 tariff application the AESO should request that its currently-approved contribution policy be treated as interim and refundable effective January 1, 2010. The AESO acknowledges that the proposed 2010 contribution policy includes material increases to investment levels as well as other enhancements that may result in customers delaying projects in anticipation of the proposed contribution policy being approved. The AESO considers such delays to generally be inefficient, and will therefore recommend the currently-approved contribution policy be considered interim and refundable during 2010 and that the final contribution policy, when approved, be retroactive to January 1, 2010.

The contribution policy that applies to a connection project will remain the one which is in effect (on a final basis) on the date the Alberta Utilities Commission (“Commission”) issues permit and licence for the connection project, as is the current practice of the AESO and as is explicitly stated in the proposed 2010 terms and conditions.

The AESO considers that other changes being proposed in its 2010 tariff application should not be applied retroactively, as they are either less material (such as changes to many rate levels) or are unsuited to retroactive implementation (such as the hourly allocation of operating reserve costs in Rate DTS). The AESO will therefore request that all aspects of its 2010 tariff, other than the contribution policy, be implemented on a go-forward basis as of the effective date approved by the Commission.

5 Basis for Wires Costs Included in AESO Revenue Requirement

Stakeholders suggested the AESO consider revising its approach of including in the wires cost component of its revenue requirement only tariffs that have been approved on an interim or final basis for owners of transmission facilities (“TFOs”). In particular, where a TFO has applied for an increase to its tariff for the test year but that increase has not yet received Commission approval, stakeholders suggested that including costs mid-way between the currently-approved and the applied-for TFO tariffs may result in AESO rates recovering amounts nearer the final approved TFO costs. Such an approach could reduce the balances which the AESO then needs to recover through deferral account mechanisms such as Rider C and later reconciliations.

The AESO has examined recent TFO tariff approvals and has found that the suggestion has merit. Initial results indicate that determining wires costs which include about three-quarters of

any applied-for increases above currently-approved TFO tariffs would likely reduce deferral account balances recovered through Rider C. The AESO expect to include such a proposal in its 2010 tariff application.

6 Conclusion

The AESO is in the final stages of incorporating these changes in its 2010 tariff application, as well as finalizing the other proposals and improvements discussed during stakeholder consultation. The AESO will file the application as soon as possible, and appreciates stakeholders' interest and participation in the consultation processes related to the application. All information related to the 2010 tariff consultation is available on the AESO's website at www.aeso.ca by following the path Tariff ► Current Consultations ► 2010 Tariff.

If you have any comments or questions on the AESO's tariff application, please contact me at 403-539-2465 or john.martin@aesoc.ca.

Sincerely,

[original signed by]

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