AESO BOARD DECISION
2010 and 2011-BRP-001

AESO 2010 and 2011 Business Plan
and Budgets, Forecasted 2010
Transmission Line Losses Costs and
Ancillary Services Costs

January 2010
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1. Introduction

The *Transmission Regulation*\(^1\) ("T-Reg") includes provisions addressing the process for consultation and approval of the AESO's general and administrative costs, other industry and capital costs (collectively referred to as "Own Costs"), as well as transmission line losses costs and ancillary services costs. The T-Reg provides that the AESO must consult with market participants on proposed costs prior to the AESO Board's review and approval. It also provides that these costs, once approved by the AESO Board, are considered by the Alberta Utilities Commission ("AUC") as prudent unless an interested person satisfies the AUC that such costs are unreasonable.

The practice established by the AESO to carry out the consultation on these costs is the *Budget Review Process* ("BRP"). The BRP is a transparent stakeholder process which facilitates a detailed cost review with stakeholders combined with a review of the associated business priorities. Consistent with prior years, a recommendation for the AESO's business initiatives, Own Costs, transmission line losses costs and ancillary services costs has been prepared by AESO Management and outlined in the AESO 2010 and 2011 Business Plan and Budget Proposal (the "Proposal"), which has been provided to the AESO Board for review and approval.

This AESO Board Decision (the "Decision") on the Proposal includes the AESO Board's decision on the AESO's 2010 and 2011 business initiatives and budgets and forecasted transmission line losses costs and ancillary services costs for 2010. This Decision should be read in conjunction with the AESO's 2010 and

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\(^{1}\) AR 86/2007
2011 Business Plan and Budget Proposal and stakeholder comments on the Proposal are available on the AESO's website at www.aeso.ca.

2. Budget Review Process

2.1 The Process

As a part of the 2008 and 2009 BRP, the AESO consulted and reached agreement with stakeholders to expand the BRP to review two budget years at one time in the process, followed by an abbreviated BRP in the year prior to year-two of the approved budgets. The 2008 and 2009 budgets were subsequently approved by the AESO Board in Decision 2007-BP-001.

At the beginning of the BRP for the 2010 and 2011 Business Plan and Budget Proposal (the "2010 and 2011 BRP") in the spring of 2009, the AESO discussed with stakeholders the merits of continuing a multi-year budget process. All parties were in agreement that the process should be continued for the 2010 and 2011 budget years as there continued to be efficiencies gained through the multi-year budget process.

2.2 Development of the 2010 and 2011 BRP

The AESO Board believes it is imperative that the BRP be designed to be robust and transparent. The AESO Board understands the 2010 and 2011 BRP was developed with ongoing input from stakeholders starting in April 2009 with discussions on the AESO Board approval process, the terms of reference and the process timelines. The terms of reference were established with an overarching objective to achieve a transparent process, including the opportunity for all stakeholders to participate and provide input.
The AESO Board believes that the process, which includes multiple stages, regular opportunities for interaction with stakeholders, the disclosure of stakeholder and AESO positions and comments, the opportunity for stakeholders to meet with the AESO Board, and the publishing of this decision meet the expectations of the BRP and those embodied in the T-Reg.

As a part of the BRP, stakeholders have an opportunity to present their comments to the Board on the Proposal. For the 2010 and 2011 BRP, on October 15, 2009 representatives of two stakeholders, the Industrial Power Consumers Association of Alberta ("IPCAA") and the Office of the Utilities Consumer Advocate ("UCA") met with the AESO Board to provide the Board with further elaboration of their comments and to respond to questions from the Board. Alberta Direct Connect Consumer Association ("ADC") chose to provide the AESO Board with written comments on the Proposal. All comments relating to the Proposal have been considered in reaching this Decision. The written comments received from stakeholders have been posted on the AESO’s website.

This Decision focuses on the areas the AESO Board believes may be helpful to stakeholders, particularly those areas that are relevant to its approval or are required to supplement the responses documented by AESO Management in the Proposal. While the AESO Board took into consideration all stakeholder input, this Decision does not explicitly address all points raised by stakeholders as the AESO Board is of the view that many were sufficiently dealt with and documented throughout the process leading to the Proposal. Stakeholder comments and AESO responses were compiled by the AESO throughout the 2010 and 2011 BRP and can be found in Section 5 of the Proposal.

The Decision was made at the October 28, 2009 AESO Board meeting at which the AESO Board was asked to approve, or amend and approve, as appropriate, the AESO’s 2010 and 2011 business initiatives and budgets and forecasted 2010 transmission line losses and ancillary services costs.
2.3 AESO Board Key Findings

The AESO Board believes the BRP carried out in 2009 with respect to the AESO’s proposed 2010 and 2011 business initiatives and budgets and forecasted 2010 transmission line losses costs and ancillary services costs has achieved the objectives of the BRP. In addition, the AESO Board believes that the BRP has met the requirements of the T-Reg\(^2\) for the AESO to consult with stakeholders that the AESO considers are likely to be directly affected by the approval of the AESO’s 2010 and 2011 business initiatives and budgets and forecasted 2010 transmission line losses and ancillary services costs.

The AESO Board also continues to support the multi-year budget process that was developed as a part of the 2008 and 2009 BRP. The AESO Board believes that the implementation of the process for the 2008 and 2009 budget years was successful as efficiencies were gained by eliminating the need for the AESO and stakeholders to undertake an extensive BRP on an annual basis. The second budget year in the multi-year budget process is subject to an abbreviated BRP. Positive feedback was provided by stakeholders on the multi-year BRP.

3. Strategic and Operational Priorities

3.1 Strategic Plan and Vision

The business initiatives as set out in the Proposal are based on the AESO’s five-year Strategic Plan 2009-2014 dated March 2009 (“Strategic Plan”). The Strategic Plan is reviewed annually to ensure alignment with the AESO’s corporate direction. New developments throughout 2010 and 2011 and any material effects that they may have on strategic planning will be shared with stakeholders as they arise.

\(^2\) Paragraph 3(1)(b)
As part of this Decision, the AESO Board supports the vision statement as put forth in the Strategic Plan. The AESO's vision statement reads as follows:

*The AESO will be seen as a significant contributor to the development of Alberta and the quality of life for Albertans, through our leadership role in the facilitation of competitive electricity markets and the reliable operation and development of the Alberta Interconnected Electric System.*

The *Electric Utilities Act* ("EUA")\(^3\) provides for the AESO to play a key role in the provision of electricity in Alberta. Specifically, the AESO has leadership roles in both the facilitation of fair, efficient, openly competitive markets, and the reliable operation and development of the Alberta Interconnected Electric System ("AIES"). The AESO Board continues to believe that the presence of fair, efficient, openly competitive markets and a reliable AIES are fundamental to the development of the Province and quality of life in Alberta.

The AESO is a not-for-profit statutory corporation which is principally governed by its legislative mandate, as defined by the EUA, and by its Board. The AESO Board is made up of members appointed by Alberta's Minister of Energy and acts independently from persons or entities having a material interest in the electricity industry.

The AESO's authority and statutory obligations are established in the EUA\(^4\) and relevant regulations, such as the T-Reg. The key duties and responsibilities of the AESO are:

- Ensuring the safe, reliable and economic operation of the Alberta Integrated Electric System (AIES);
- Operating the power pool and facilitating markets for electricity in a manner that promotes fair, efficient and open competition;
- Providing transmission system access services;

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\(^3\) S.A., 2003, c. E-5.1, as amended

\(^4\) Specifically, Part 2, Division 2.
- Managing and recovering costs associated with ancillary services and line losses;
- Determining the future requirements of the AIERS, developing transmission plans over long-term horizons that identify the transmission system enhancements needed to meet those requirements, and making the necessary arrangements to implement those enhancements.

The EUA requires that members of the AESO act in the public interest. The public interest is a concept that generally incorporates a balancing of broad and relevant interests that may be appropriate at a particular time. The AESO will continue to consult with government and stakeholders (generators, loads, transmission facility owners and other interested parties) in developing its priorities, initiatives, budgets and decisions.

During the 2010 and 2011 BRP, IPCAA raised various questions related to the AESO's mandate (which are italicized below). The following responses address those questions.

(a) How do the AESO's "statutory authority and obligations" reconcile with the implementation of government policy? Is the AESO an implementing agency of government policy?

The AESO does have regard for government policy when discharging its statutory authority and obligations. Government policy does not override the AESO's responsibility to discharge its statutory and legal obligations and directions but is a relevant factor and is appropriately considered in AESO decision making.

In the course of complying with its statutory and legal obligations, the AESO may be an implementing agency of government policy, particularly in relation to matters that are identified to be in the public interest of Albertans. This is
evident, for example, in the Alberta Department of Energy's 2005 policy paper on the energy market framework, *Alberta’s Electricity Policy Framework: Competitive – Reliable – Sustainable*. This policy describes the AESO as an "implementing agency... tasked with guiding the key elements of Alberta’s electric industry".

In addition, the *Alberta Public Agencies Governance Act*\(^6\) clarifies the role of the AESO as a public agency subject to government policies applicable to it, or its activities or functions. The AESO will be developing documentation to meet the requirements of this legislation including a roles and mandates document agreed to with the Minister. Any changes to the AESO's role and mandate will be communicated to stakeholders.

(b) How does “public interest” reconcile with “rate payer interest”?

The public interest is a broader concept than the interests of any particular stakeholder or group of stakeholders, and requires a balancing of various considerations. While the public interest may be in alignment with rate payer interest on a particular subject or issue (assuming there is a common interest among rate payers), there may not necessarily be alignment of interests in other cases.

(c) Who establishes the AESO’s priorities?

The AESO Board and Management establish the priorities, initiatives and budgets of the organization following consultation with stakeholders. The development of the AESO’s priorities and initiatives are influenced by various relevant factors which include, but not are limited to, the discharging of the

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\(^{5}\) Alberta’s Electricity Policy Framework: Competitive – Reliable – Sustainable (June, 2005) Sections 4.4.7 and 4.4.8
\(^{6}\) Bill 32. Assented to on June 4, 2009; in effect on proclamation.
organization’s statutory and legal obligations, government policy, AUC decisions and directions, and stakeholder input.

3.2 Strategic Objectives

In the AESO Strategic Plan, six strategic objectives are identified as areas of concentration in support of its vision statement. These objectives are designed to allow the AESO to address those areas which could affect development of the transmission system, performance of the competitive energy market and delivery of system and market access services. The AESO’s six strategic objectives are as follows:

1. We will design and operate a competitive, energy-only electricity market where market evolution is driven by participants and the AESO;
2. We will lead development of a reliable transmission system, including interties to other jurisdictions, which fully enables operation of the competitive market;
3. We will consistently meet or exceed customer expectations in the delivery of system and market access services;
4. We will ensure our workforce capacity and skill-sets meet business demands while making the AESO an exceptional place to work, learn, succeed and make a difference;
5. We will leverage leading technologies to improve customer service and the diversity, reliability and efficiency of system and market operations; and
6. We will build strong public, industry and government support to ensure effective execution of our mandate.

The strategic objectives are reviewed annually as part of the AESO’s (Board and Management) strategic planning. In 2008 and early 2009 the AESO undertook a review of its Strategic Plan, including its strategic objectives. The strategic
objectives were presented to stakeholders as part of the BRP. The AESO has, from time to time, amended its objectives in response to stakeholder feedback.

UCA indicated in its written comments and presentation that the word “appropriate” should be included in the strategic objective related to transmission development. The AESO (Board and Management) is in agreement with UCA’s request to add “appropriate” to the strategic objective wording on transmission development. The AESO believes one of its primary objectives is to provide for appropriate transmission capacity to be built in a timely manner. The strategic objective on transmission development has been amended as follows:

“We will lead appropriate development of a reliable transmission system, including interties to other jurisdictions, which fully enables operation of the competitive market”.

It is important to the AESO Board that the AESO continue to enhance the delivery of its mandate and that its employees recognize the importance of their role in meeting organizational objectives. The AESO Board believes that the annual review of the vision statement, strategic objectives and business initiatives provides relevant and current directional guidelines that will enable the AESO to plan for and meet organizational objectives in a timely manner and assist stakeholders in meeting their business timelines.

3.3 Business Initiatives

The AESO’s business initiatives are set out in the Proposal and provide the AESO’s corporate direction in 2010 and 2011. As part of the BRP, the AESO’s initiatives for 2010 and 2011 were reviewed with stakeholders.

ADC, IPCAA and UCA all highlighted in their submissions to the AESO Board the importance of the AESO’s initiatives relating to demand response, both from the
aspect of increasing load participation in the energy market and restoring intertie capacity.

The AESO believes that enhanced load participation in the energy market is important to effective operation and evolution of the electricity market. As such, the AESO is committed to facilitating demand response and restoring intertie capacity into the Alberta electric system, without compromising either system reliability or the fair, efficient and openly competitive operation of the market. There are currently two initiatives planned in 2010 and 2011 related to this work, one specifically on demand response and the other on implementing an intertie framework which includes restoring intertie capacity. The AESO believes the inclusion of these initiatives in the Proposal affirms that they are considered to be a priority for the AESO. The AESO Board emphasizes that demand response is a key priority for the AESO.

IPCAA recommended that additional staff be added specifically for the demand response initiatives. AESO Management has advised the Board it believes there are adequate human and capital resources in the 2010 and 2011 proposed budgets to accommodate the demand response initiatives as outlined in the Proposal. The AESO Board expects Management to regularly report progress on this (and all other) initiatives, including stakeholder comments on the progress on any of the initiatives developed during the BRP. The AESO Board is prepared to approve additional resources in the future if necessary to meet the objectives of this initiative.

In UCA's submission and presentation, two additional business initiatives for 2010 and 2011 were recommended to the AESO. The first request is for the development of a mechanism to reconstitute the system marginal pool price when transmission outages render in-merit generation out of market. AESO Management has determined that a business initiative for this purpose is not required at this time. The AESO relies on the use of Transmission Must Run in a
few isolated instances, (i.e. to address constraints associated with a load pocket). Otherwise, transmission constraint management is addressed in real time operations through re-dispatching of the energy market merit order. The resulting pool price is determined by the general economics of the market (i.e. supply and demand) and requires no reconstitution of pool price. The Board finds this explanation reasonable. However, with Management agreement, the Board believes the occurrences of TMR should be monitored on an on-going basis to determine any resulting trends in increased requirements for TMR.

The second initiative requested by UCA relates to the commissioning and publishing of an external audit of the terms-and-conditions imposed by the AESO when delegating the preparation of transmission plans and related documents to Transmission Facility Owners. AESO Management determined that a business initiative for this purpose is not required at this time and the Board concurs. The AESO maintains a direct involvement in all major transmission initiatives. For any of its other responsibilities that the AESO delegates to Transmission Facility Owners ("TFO"), or Distribution Facility Owners ("DFO"), the AESO maintains a sufficient level of oversight of each project to ensure that TFO and DFO obligations are met and ultimately that the AESO's obligations are fulfilled. In order to increase market participants' knowledge of the AESO's role in project oversight, the AESO remains willing and able to assist participants upon request. If necessary, the Board is prepared to approve additional resources to accommodate demand for this service. The Board also notes and commends Management's initiatives toward the establishment of a cost oversight committee for major projects that facilitates greater load participation in the oversight process.

In addition, ADC raised a concern regarding the financial impact of implementing the AESO's Long Term Transmission Plan on ADC's members, specifically, as it relates to the current cost allocation methodology. ADC requested that the AESO undertake a cost causation review as a result of the significant costs of the
Long Term Transmission Plan. The AESO (Board and Management) is open to discussing the merits of such a review and the AESO’s role in it. Should any review be undertaken, it would be accommodated through existing AESO resources.

3.4 AESO Board Key Findings

The AESO Board finds that the business initiatives as outlined in the Proposal are comprehensive and necessary to achieve the organization’s objectives in 2010 and 2011, with particular focus on initiatives related to market evolution and transmission planning and development. Based on the comments from stakeholders, the AESO Board understands that stakeholders accept the need for the initiatives outlined in the Proposal.

With the amendments and comments above, the AESO Board endorses the business initiatives for 2010 and 2011.

4. AESO 2010 and 2011 Budgeted Own Costs and Forecasted Costs Summary

The AESO’s total aggregated costs, which include budgeted general and administrative costs, interest, amortization, forecasted transmission line losses and forecasted ancillary services costs for 2010 are $432.6 million. This is $206.5 million lower than the 2009 budgeted and forecasted costs of $639.1 million for 2009. The decrease in the AESO’s aggregated costs is primarily a result of lower forecasted pool prices in 2010 compared to 2009 which has a corresponding reduction to forecasted transmission line losses costs and operating reserve costs in 2010. Forecasted transmission line losses costs and ancillary services costs are discussed further in Section 7 of this Decision.
The following table provides a summary of the components of the AESO's 2010 and 2011 budgets, with the associated cost recovery allocation amounts (revenue sources) by function performed by the AESO, and the forecasted amounts that are the subject of review and approval in this Decision.

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue Source ($ million)</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
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<tr>
<td></td>
<td>Transmission</td>
<td>Energy Market</td>
<td>Load Settlement</td>
</tr>
<tr>
<td>General and Administrative Budget 1</td>
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<td>17.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Interest Budget 2</td>
<td>1.1</td>
<td>0.7</td>
<td>0.2</td>
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<tr>
<td>Amortization Budget 2</td>
<td>10.1</td>
<td>5.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Capital Budget 3</td>
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<td></td>
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<tr>
<td>Other Industry Budget 4</td>
<td>14.7</td>
<td>7.2</td>
<td>-</td>
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<tr>
<td>Wires Costs Forecast 5</td>
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<td></td>
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<td>Transmission Line Losses Forecast 6</td>
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<td>-</td>
<td>-</td>
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<tr>
<td>Ancillary Services Forecast 5</td>
<td>144.3</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Details are provided on the above total amounts by cost category on the following pages in the Proposal (Section 4):  1 Page 35, 2 Page 38, 3 Page 39, 4 Page 33, and 5 Page 32.

5. General and Administrative and Other Industry Costs Budgets

The AESO's planned 2010 and 2011 general and administrative costs are $73.1 million and $75.1 million respectively. The 2010 plan is $3.4 million or 5% higher than the 2009 budget of $69.7 million and the 2011 plan is $2.0 million or 3% higher than the 2010 plan. The increase in the AESO's planned general and
administrative costs budget for 2010 and 2011 is primarily driven by additional staff resources and other related costs (facility costs and computer services and maintenance) for new or changed AESO business initiatives and activities. The 2010 and 2011 budget increase proposed by AESO Management is discussed in detail in the Proposal.

A detailed analysis of the proposed increases to the general and administrative cost budgets was provided to stakeholders and the AESO Board by AESO Management as part of the 2010 and 2011 BRP. AESO Management conducted an extensive review of the business initiatives for these two years and the associated costs. It was also determined that postponement or deferral of discretionary initiatives to limit or offset the budget increases would not be prudent at this time.

In 2010 and 2011 the AESO's ongoing operations have been impacted by the following business requirements:

- It is anticipated that the majority of the Alberta Reliability Standards will be approved by the Alberta Utilities Commission and implemented in 2010, requiring the AESO (and its customers) to comply with the new standards which will require additional resources;
- The new Energy Management System was implemented in the fall of 2009. Support, maintenance and additional development of the system will require additional resources to provide for the system's full capabilities to be realized;
- Wind technology, high-voltage direct current ("HVDC") transmission technology, and other emerging technologies require additional resources to enable the AESO to appropriately develop and integrate such technologies into the AES; and
- The AESO's continued focus to improve its processes to provide increased effectiveness and efficiency of operations.
It should be noted that the AESO’s general and administrative costs also enable and maintain ongoing initiatives related to energy market evolution, Long Term Transmission P’an implementation, customer service improvements and public education programs.

In IPCAA’s submission to the AESO Board, a concern was raised regarding the AESO using funds in the 2010 budget for a public outreach program, the objective of which is to inform Albertans about the electricity industry. IPCAA believes as it relates to the 2010 budget that “no explanation is given for the decision to include an extra edition of Powering Alberta. The Load Coalition is concerned this publication will be used to promote government policy (i.e. Bill 50), using rate payer dollars, when the majority of ratepayers do not support all elements of Bill 50.”

The AESO believes that, as a part of its public interest mandate, it is entirely appropriate for the AESO to educate Albertans about electricity matters, including in respect of issues that concern a safe and reliable AIES. The AESO’s public education program has for several years provided Albertans with factual and objective information on the electricity industry. While stakeholders provide the AESO’s funding, it is the AESO’s Management and Board that determine its initiatives while considering stakeholder input. All stakeholders who fund the AESO may or may not be in agreement with the AESO on an initiative or a position, however, where the AESO has adopted a position, Management and the Board believe the AESO should, where necessary, appropriately communicate the reasons for that decision. The additional edition of Powering Alberta has not yet been drafted, but will reflect this philosophy.

The other industry costs relate to the annual administration fee for the AUC, external regulatory costs for cost recovery related to the AESO’s regulatory proceedings and the AESO’s share of various electricity organizations

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7 Bill 50 has since been proclaimed in force as the Electric Statutes Amendment Act.
membership fees (e.g. Western Electricity Coordinating Council). These are flow-through costs from other organizations which are non-discretionary costs for the AESO.

The other industry costs in the AESO budget are $21.9 million and $21.5 million in 2010 and 2011 respectively which, for 2010, is $3.9 million (or 15%) less than the 2009 budget of $25.8 million. Legislative changes have eliminated regulatory needs hearings for critical transmission infrastructure projects resulting in lower expected external regulatory costs being incurred in 2010 and 2011 compared to 2009. The forecasted administration fees related to the AUC are $18.0 million for 2010 and 2011 respectively. The AUC levies the fees as two separate fees: a transmission fee ($10.8 million for 2010 and 2011) that is recovered through the AESO’s transmission tariff and an energy market fee ($7.2 million for 2010 and 2011) that the AESO recovers through the AESO’s trading charge.

### 5.1 AESO Board Key Findings

The AESO Board notes and commends the effort expended by AESO Management to inform stakeholders and to seek their input on the Proposal, and by stakeholders for the time and effort to participate in the process. The AESO Board believes that a rigorous and transparent stakeholder process assists the AESO Board in its review.

With a view to the business initiatives and strategic objectives described in the Proposal, and as further discussed above, the AESO Board approves as reasonable the AESO’s 2010 and 2011 proposed general and administrative costs of $73.1 million and $75.1 million respectively, interest costs of $2.0 million and $2.6 million respectively, amortization of $17.7 million and $23.2 million respectively and other industry costs of $21.9 and $21.5 million respectively.
The AESO Board has directed AESO Management to continue to closely monitor and report regularly to the AESO Board in 2010 and 2011 on the impact of changing economic conditions on its business initiatives and expenditures. AESO Management is in agreement, and in particular, will exercise continued vigilance with respect to discretionary costs. Any significant changes in the AESO’s business initiatives or expenditures will be reported to stakeholders as part of the AESO’s regular quarterly reporting.

6. Capital Budget

The AESO Board continues to believe that the AESO’s IT systems and related infrastructure represent a central underpinning of the AESO’s business and of maintaining the efficacy of the functioning of the market and the interconnected electric system. Accordingly, with the advanced age of several components of the AESO’s infrastructure, it can be expected that significant investments in this area will continue to be necessary to meet IT system requirements for effective planning and operations, as well as for the provision of increased efficiencies in ongoing business services.

The AESO’s proposed capital budgets for 2010 and 2011 are $29.4 million and $29.0 million respectively. Project overviews which make up the proposed budget amounts are outlined in the AESO’s Proposal. As outlined in the AESO’s Proposal, the AESO has developed a capital portfolio management process to regularly review and prioritize projects to meet AESO and related stakeholder business needs. This process is critical for the AESO to operate in a business environment and must be flexible to respond to changing business initiatives and other circumstances, such as AUC decisions.

The proposed capital budget amounts were based on a funding envelope basis, not on an individual project basis. As a result, each proposed project is preliminary in nature and additional project details are required (e.g. project
definition, cost/benefit analysis, reporting requirements, etc.). As the portfolio is
developed with refined project details, stakeholder review and Board approval of
the portfolio will be managed through the capital portfolio management process.
Timely communication with stakeholders and the AESO Board, as projects are
approved through the AESO Management internal process, will be important to
the success of this initiative.

6.1 AESO Board Key Findings

Subject to the capital portfolio management process and the commitment for
ongoing, timely communication of individual capital projects, the AESO Board
approves as reasonable the establishment of a capital project cost envelope of
$29.4 million and $29.0 million as proposed for 2010 and 2011 respectively. The
AESO Board encourages AESO Management to work with stakeholders to
develop regular reporting that will provide stakeholders with transparency of the
details of those projects that are approved through the AESO’s capital portfolio
management process.

7. Forecast Transmission Line Losses Costs and Ancillary
   Services Costs

The AESO’s 2010 transmission line losses costs are forecasted at $173.6 million,
and the ancillary services costs are forecasted at $144.3 million. The forecasts
are based upon volume and market-based commodity pricing forecasts. Both of
these items are detailed in the Proposal.

The 2010 transmission line losses costs are forecasted to decrease to $173.6
million from the 2009 forecasted amount of $238.0 million. This is due to a lower
pool price forecast for 2010 ($64.37 per megawatt hour) compared to the 2009
forecast ($84.43 per megawatt hour). No material change in line loss volumes
are forecasted year-over-year.
Ancillary services costs are forecasted to decrease to $144.3 million in 2010 from $289.7 million forecasted for 2009. This decrease is mainly attributed to operating reserve costs and, more specifically, to an anticipated reduction to the costs of procuring operating reserves in 2010 compared to the 2009 forecast due to a lower pool price forecast.

The AESO Board had previously expressed a desire to determine if the variability of forecasts to actual costs for these two cost components could be reduced.

In response to the Board’s Decision, in 2009 AESO Management undertook a review of its methodology for the determination of operating reserve prices. Management determined that the methodology previously employed for determining pricing of operating reserves by using historical prices did not accurately reflect future pricing for operating reserves. The methodology was revised to look at historical pricing trends for premiums and discounts, and then apply those trends to third party forecasted pool prices for the upcoming year to develop forecasted operating reserve prices for 2010. The AESO believes that this revised methodology should provide more accurate pricing of operating reserves in 2010 and will align with the methodology used for determining forecasted transmission lines losses costs.

Operating reserve volumes are not forecasted to change materially year-over-year.

7.1 AESO Board Key Findings

The AESO Board understands it is inherently difficult to forecast these items with precision as these costs are a function of volume forecasts and market-based commodity pricing forecasts. Volume forecasts tend to be more precise as they are based on volumes (generation and load) which can be forecasted with a higher degree of certainty over time as they generally reflect historical trends.
Commodity price forecasts are subject to greater variability as the forecasts are subject to various underlying factors (e.g. generator offer strategies, unplanned outages, load requirements, etc.) which themselves are variable. The AESO Board believes the methodologies and assumptions utilized by the AESO are reasonable and believes the changes in forecasting operating reserves would improve the forecast to actual variance. The AESO Board believes the forecasts, while estimates, should be as close to actual values as possible which will minimize the differences that will have to be addressed through the AESO’s deferral account reconciliation process.

The AESO Board approves, as proposed, the 2010 forecasted transmission line losses costs and ancillary services costs of $173.6 million and $144.3 million respectively.

8. Other

While stakeholder submissions and presentations to the AESO Board generally relate to the AESO’s business initiatives and budgets, other comments were also provided. This section addresses those comments.

As a part of its submission, IPCAA raised a concern that the current market design is not sufficiently robust to attract new investment in an efficient and competitive manner and that a major review of the design is required. A review of the market design was performed by the Department of Energy in 2005. It was confirmed that an energy-only market design has the ability to attract new capital investment as required. The AESO believes that the market has evolved since that time and will continue to evolve as it matures. As outlined in the AESO’s strategic objective on markets, the AESO is committed to working with stakeholders to evolve the real time energy market. The AESO Board concurs with this response and suggests that the current market design structure does not preclude changes that improve market efficiency and can occur without
opening up all elements of the market design which could heighten uncertainty and thereby may limit additional investment.

IPCAA’s submission also indicated that the AESO should conduct stakeholder sessions that are focused on load related matters and restricted to load participation. It was additionally suggested that the Market Advisory Committee (“MAC”) should have greater load involvement as it relates to both issues and representation. AESO Management have advised that the MAC is intended to be an advisory committee, not an advocacy committee, as the process is intended to be a forum for broad public interest discussion without specific self-interest. The AESO remains open to meeting with load representatives separately, as with any stakeholders, to discuss matters of interest as required. The AESO Board values the views and participation of the load community. However, it finds that there are adequate opportunities to meet IPCAA’s request for load participation and for input on AESO activities.

9. Decision Overview

Accordingly, on balance, having regard for all views and its own assessment, the AESO Board finds the proposed 2010 and 2011 general and administrative costs, interests costs, amortization costs, other industry costs, capital costs, forecasted 2010 transmission lines losses costs and forecasted 2010 ancillary services costs budgets to be reasonable. AESO Management and the AESO Board will closely monitor demands on the resources of the AESO during 2010 and 2011, make adjustments as appropriate, and obtain stakeholder input if required.

The AESO Board trusts the BRP is viewed by stakeholders as a valuable process to achieve effective AESO budgets that balance cost efficiency with the ability to achieve the AESO’s strategic goals and business initiatives.
The AESO Board welcomes any comments from interested parties on improvements to the BRP and has requested AESO Management to continue its discussions with stakeholders toward ongoing process improvement.

For the AESO Board,

Harry Hobbs
Chairman