

December 16, 2010

Dear Market Participants and Other Interested Parties:

Re: Update to Alberta Electric System Operator (“AESO”) approach to Transmission Constraint Management (“TCM”): Revised ISO Rules 9.4 TCM (“Revised TCM Rules”); Proposed New Connection Remedial Action Scheme Rules (“Connection RAS Rules”)

The AESO has completed consultation on the Revised TCM Rules which deals with real time constraints management and submitted a compliance filing of the Revised TCM Rules with the Alberta Utilities Commission (“AUC” or “Commission”) on December 16, 2010. As part of ongoing discussions with industry related to the management of transmission constraints in the planning domain, the AESO is considering the next steps on the proposed Connection RAS Rules which has been consulted on in parallel with the Revised TCM Rules. To provide context for these two matters, the AESO is providing this update on its overall approach with respect to related TCM initiatives.

Introduction and Background

On April 9, 2009 the Commission issued Decision 2009-042¹ (the “TCM Decision”) after holding Proceeding 41 to consider objections to the TCM ISO rule (the “TCM Rule”). The TCM Rule was originally filed by the AESO on April 17, 2008. Although the Commission determined that parties objecting to the TCM Rule had failed to demonstrate the rule was inconsistent with the fair, efficient and openly competitive (“FEOC”) market² or otherwise not in the public interest,³ the Commission did find the TCM Rule to be technically deficient. Consequently, the Commission directed the AESO to define basic terms and concepts, to provide clarification as to the scope of the TCM Rule and the process steps to manage congestion, and, once complete, to file the revised TCM Rule.⁴

On December 3, 2009, the AESO published a discussion paper⁵ which outlined the proposed approach that the AESO would take regarding the filing of the revised TCM Rule and asked for stakeholder comments on the paper. After considering all comments received, on July 20, 2010 the AESO released Revised TCM Rules and sought stakeholder comment to ensure that the rule was technically sound and, in particular, that there was clarity in the revised rule language. Stakeholder comments on the

¹ Decision 2009-042, Alberta Electric System Operator, Objections to ISO Rule 9.4, Transmission Constraints Management, April 9, 2009.

² TCM Decision, paragraphs 178 to 180

³ TCM Decision, paragraph 188.

⁴ See, for example, the TCM Decision, paragraph 205.

⁵ AESO Discussion Paper Transmission Constraints Management: Rule 9.4 AUC Re-filing Proposal, December 3, 2009.

Revised TCM Rules were received and posted to the AESO website on September 9, 2010.

On July 3, 2009, the AESO published a discussion paper⁶ on the use of remedial action schemes (“RAS”) that documented current practices and identified policy related questions for consultation with industry. Stakeholder comments on the discussion paper and the AESO’s responses to those comments were published in a [comment response matrix](#) on December 3, 2009. After considering all comments received on July 20, 2010 the AESO commenced with consultation on the proposed [Connection RAS Rules](#). The proposed Connection RAS Rules specifies AESO and customer obligations in determining the need for and the use of a connection RAS to facilitate the connection of customers to the system in advance of the completion of the construction of all necessary system facilities. Stakeholder comments on the proposed Connection RAS Rules were posted to the AESO website on September 9, 2010.

With the release of the proposed Revised TCM Rules and Connection RAS Rules on July 20, 2010, the AESO published an updated [overview letter](#) which reiterated its approach with respect to TCM related initiatives, including Alberta Reliability Standards, and related consultation on the AESO’s Transmission Reliability Criteria and the OPP 500 transmission series implementation. An update on these TCM initiatives is provided in this letter.

Update on Real Time Constraints Management – Revised TCM Rules

After considering stakeholder comments received on the Revised TCM Rules and upon further internal review of the rule language, the AESO has proceeded with a compliance filing of the Revised TCM Rules with the Commission. The compliance filing will address the Commission directions from the TCM Decision, and if the revised TCM rule is approved by the Commission, it is expected to come into effect 60 calendar days after such approval.

Update on Congestion during the Planning Horizon – The Connection RAS Rule

The AESO is currently reviewing stakeholder comments on the proposed Connection RAS Rules. The proposed Connection RAS Rules specify AESO and customer obligations in determining the need for and the use of a connection RAS to facilitate the connection of customers to the system in advance of the completion of the construction of all necessary system facilities. The AESO notes that stakeholders are seeking further clarity on AESO policies and practises related to its obligations to connect customers and plan for unconstrained customer access to the system. The AESO is considering changes to the Connection RAS Rules language to provide more clarity with respect to its duty to plan for an unconstrained system and the removal of temporary connection RAS. The AESO will follow the ISO rule process in its consultation on any revisions to the proposed Connection RAS Rules.

Update on Congestion during the Planning Horizon – Alberta Reliability Standards, System RAS and Transmission Reliability Criteria

As required in Alberta Reliability Standards, the AESO has developed criteria for classifying the RAS currently listed in OPP 704 into different categories. This classification determines the applicability of the new Alberta Reliability Standards to the

⁶ AESO Discussion Paper Transmission Constraints Management: RAS in the Planning Stage, July 3, 2009.

RAS owners. A database has been built with input from the RAS owners and is now available on the AESO website. Please contact Jerry Mossing at (403) 539-2496 with any questions regarding the reliability standards, the database or the OPP 704 changes.

Given the adoption of new Alberta Reliability Standards, the existing Transmission Reliability Criteria need to be updated to reflect the new standards. The AESO intends to consult with industry regarding this update to ensure clarity on all related practises and procedures including the AESO approach to the use of system RAS. Please contact Jeff Billinton at (403) 539-2499 with any questions regarding the Transmission Reliability Criteria initiative.

Update on TCM Implementation through OPP 500 Transmission Series

The Revised TCM Rules includes a general protocol for managing real time constraints which will serve as a generic template for all related OPPs, particularly the OPP 500 transmission series. The Revised TCM Rules also specifies how the system controller will manage a constraint after the RAS has been activated. The Connection RAS Rules specifies connection RAS activation order based upon relative order of connection projects in the connection queue. In this regard, specific regional OPPs must be consistent with the Revised TCM Rules and the proposed Connection RAS Rules.

At present, there are several OPPs in the OPP 500 transmission series addressing congestion in specific areas of Alberta. Once the Revised TCM Rules comes into effect, the AESO will amend the OPP 500 transmission series to ensure consistency with this rule. The AESO intends to phase- in amendments to the OPP 500 transmission series over time, and accordingly, anticipates that revisions will be brought forward for consultation during 2010 and 2011. A phased approach with full stakeholder consultation is intended to provide sufficient time to develop new system controller tools for managing congestion in accordance with the Revised TCM Rules. When amending the OPP 500 transmission series, the AESO also intends to restructure the OPPs to be consistent with the new ISO rules format.

Should you have any questions with respect to this letter, please feel free to contact Gordon Nadeau at (403) 539-2568 or Doug Simpson at (403) 539-2494.

Sincerely,

<original signed by>

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cc: Cliff Monar, Senior Vice-President
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