April 13, 2011

To Interested Parties
(As registered on Proceeding ID No. 530, AESO 2010 ISO Tariff Application and the AUC electric email notice list)

Electric Transmission Contribution Policy Proceeding
Application No. 1607193
Proceeding ID No. 1162

Process and terms of reference


2. In its decision, the Commission determined that

301. … the Commission will establish a module, under a separate proceeding, to deal with aspects of the AESO’s customer contribution policy. The Commission will set out the full terms of reference for this proceeding in correspondence to be issued following this Decision.¹

3. Accordingly, the Commission has established Proceeding ID No. 1162 to deal with the contribution policy proceeding.

4. The Commission considers the primary objectives for the contribution policy proceeding are three-fold:

   (1) Examine the changes to legislation and the AESO’s tariff (including the findings in Decision 2010-606) which have increased the frequency and the amount of contributions.

   (2) Examine the levels of contributions and their effects on market participants.

   (3) Examine the underlying principles that create a requirement for customers to contribute capital, and specifically how the application of that principle should be used to determine contributions between two regulated utilities which already have underlying obligations to provide service.

5. The attached terms of reference provides additional background on the contribution policy proceeding and provides a high level outline of the scope.

6. The AESO is directed to submit a detailed scope of work and a schedule by May 31, 2011. The detailed scope of work should list the areas to be addressed in an application by the AESO and the schedule should outline the start and end dates for consultation with stakeholders, an indication of how long it will take the AESO to prepare an application, and the date the AESO expects to file an application for the contribution policy proceeding. The AESO should submit the detailed schedule to filings@auc.ab.ca referencing Proceeding ID No. 1162 in the subject line.

7. A formal notice of this proceeding will not be issued until receipt of an application from the AESO; however, parties will be given the opportunity to comment on the proposed scope of work and schedule. Comments are to be submitted to filings@auc.ab.ca referencing Proceeding ID No. 1162 in the subject line and all comments received will be added to the record of the proceeding. The Commission has established a deadline of June 10, 2011 for parties to submit comments. If the AESO wishes to reply to the comments received, it should do so before June 17, 2011.

8. Upon receipt of the proposed scope of work and schedule from the AESO, followed by the receipt of comments from parties, the Commission will issue a final scope of work and establish a deadline date for the AESO to file its application.

9. The relevant deadline dates established in this letter are summarized in the table below.

| Detailed scope of work and schedule submitted by the AESO | May 31, 2011 by 4 p.m. |
| Comments from interested parties | June 10, 2011 by 4 p.m. |
| AESO to reply to comments from interested parties | June 17, 2011 by 4 p.m. |

10. If you have any questions regarding the outline or the schedule please contact Wayne MacKenzie by email at Wayne.MacKenzie@auc.ab.ca or by phone at 403-592-4420.

Sincerely,

(sent by email)

Wayne MacKenzie
Application Officer

Attachment
Background

The Alberta Electric System Operator (AESO) in its application for the 2010 ISO Tariff, proposed to establish a new Rider I under the tariff that would provide market participants with the option of amortizing contributions in aid of construction (CIAC) over a period of up to 20 years, rather than paying contributions up-front, as is required under the tariff. The AESO stated that the development of Rider I was prompted by concerns expressed by market participants in recent years regarding the payment of construction contributions for system access service connections. The concerns were a result of changes to the legislation and the AESO’s tariff which have increased the frequency and amount of contributions, the magnitude of costs (and associated contributions) when projects require significant connection facilities, and the extended time required for development and construction of some projects.

The Alberta Utilities Commission (the Commission) seeks to better understand the changes to the legislation and the AESO’s tariff which have increased the frequency and the amount of contributions and the effect on market participants.

In its Decision 2010-606, with respect to the 2010 ISO Tariff, the Commission determined that Rider I would be considered in association with the management fee in the upcoming 2011 Generic Cost of Capital proceeding (Proceeding ID No. 833).1

With respect to management fee, in its Decision 2009-087 on ATCO Electric’s 2009-2010 General Tariff Application, the Commission determined the following:

The Commission finds that consideration and evaluation of CIAC [contributions in aid of construction] and related compensation to the utility could be more efficiently and effectively addressed going forward at a generic proceeding, which would allow for a more detailed review of all relevant issues at one time and by all potentially affected parties. The Commission will advise all parties in the near future as to the process that will be established.2

As well, in its Decision 2009-151 on AltaLink’s 2009-2010 General Tariff Application, the Commission confirmed and added to the above finding:

711. The Commission continues to hold these views, and is committed to dealing with the management fee issue on a comprehensive basis. For this reason, the Commission considers that it should not approve the management fee or Rider I proposals until it has had the opportunity to fully understand these issues on comprehensive and global basis.3

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3 Decision 2009-151, AltaLink Management Ltd., 2009-2010 General tariff Application, paragraph 711, page 122.
On December 16, 2010, the Commission issued a letter on the scope and timing of the 2011 Generic Cost of Capital proceeding (Proceeding ID No. 833), which determined that the scope included consideration of a management fee on customer contributed assets and how such a fee would be accounted for.

**Objectives for this proceeding**

In Decision 2010-606, the Commission determined:

436. …the pending contribution policy module discussed in section 9.3.1 of this Decision will provide a useful forum for consideration of a number of related issues, including but not limited to: the levels of contributions and their effects on market participants, and contributions by distribution utilities with points of delivery serving multiple end-use distribution customers.\(^4\)

As well, the Commission determined:

443. … The Commission is not persuaded that further adjustments to the maximum investment levels are necessary at this time as suggested by the DUC; however, maximum investment levels may be considered in the contribution policy module.\(^5\)

[and]

300. … While the Commission agrees with the adoption of the GEIP definition as discussed in section 10.2.1 of this Decision, it also considers that the investment allowances under the tariff should be re-examined in light of the fact that facilities will be built pursuant to GEIP.\(^6\)

[and]

448. … The Commission approves the AESO’s proposal to reduce the multiplier from 1.15 to 1.06 as filed, however, the multiplier may be considered in the contribution policy module.\(^7\)

Lastly, the Commission determined that

487. The Commission acknowledges that this change to the Prepaid O&M charge will result in reduced contribution amounts paid by connecting customers and an increase in the amount of the TFO revenue requirement that is flowed to the AESO and recovered through the Rate DTS rate. Therefore, contributions in this area may be considered in the contribution policy module.\(^8\)

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\(^4\) Decision 2010-606, paragraph 436, page 80.

\(^5\) Decision 2010-606, paragraph 443, page 81.

\(^6\) Decision 2010-606, paragraph 300, page 58.

\(^7\) Decision 2010-606, paragraph 448, page 82.

\(^8\) Decision 2010-606, Paragraph 487, Page 90.
Given its findings, the Commission considers that the objectives for the contribution policy proceeding are three-fold:

1. Examine the changes to legislation and the AESO’s tariff (including the findings in Decision 2010-606) which have increased the frequency and the amount of contributions.

2. Examine the levels of contributions and their effects on market participants.

3. Examine the underlying principles that create a requirement for customers to contribute capital, and specifically how the application of that principle should be used to determine contributions between two regulated utilities which already have underlying obligations to provide service.

**Scope of work**

The contribution policy proceeding should focus on which customers are required to make a contribution, the level of contributions, and their effects on market participants.

The AESO is requested, in consultation with interested parties, to examine opportunities for potential changes to the AESO’s tariff which, if adopted, could reduce or limit the potential of CIAC balances to reduce the net rate base of transmission facility owners. Measures that could be investigated include, without limitation, changes to the AESO tariff that would exempt distribution facility owners from a requirement to make a contribution in some circumstances or adjust the average level of contributions by increasing the investment function multiplier. Notwithstanding, the Commission considers that the contribution policy proceeding is generally not intended to refine the functional form or structure of the maximum investment allowance.

For each opportunity identified, the AESO should describe the impact on rates, the expected impact on TFO contribution balances and should identify, as necessary, any other potential impacts or unintended consequences not discussed in this document.