May 31, 2011

Wayne MacKenzie
Application Officer
Alberta Utilities Commission
Fifth Avenue Place, Fourth Floor
425 – 1st Street SW
Calgary, Alberta T2P 3L8

Dear Wayne:

Re: Detailed Scope of Work and Schedule Submission by AESO for Commission-Initiated Electric Transmission Contribution Policy Proceeding Application No. 1607193 and Proceeding ID No. 1162

The Alberta Electric System Operator (AESO) provides this submission on the scope and schedule for the above-noted proceeding. This submission responds to the following direction included in the process letter issued by the Alberta Utilities Commission (Commission) on April 13, 2011 (page 2, paragraph 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.

In preparing this submission, the AESO consulted with stakeholders in a meeting on May 11, 2011, as well as in individual discussions. The meeting and discussions assisted the AESO in developing this submission; however, the submission remains the AESO’s and is not proposed as being specifically reflective of individual or consensus views of stakeholders. The AESO understands that stakeholders will have the opportunity to comment on this submission in accordance with the process established by the Commission.

The AESO has considered matters to be included within the scope of the Transmission Contribution Policy Proceeding as well as matters that are out-of-scope. The matters that were considered are summarized in the following sections, together with a proposed schedule for preparation of the AESO’s application.
1 Matters Considered in Scope

Transmission contribution policy has been reviewed over the last decade in tariff applications of the AESO and its predecessor organizations. The principles established in decisions on those prior applications were summarized in Section 6.11 of the AESO’s 2010 ISO Tariff Application (Application No. 1605961 and Proceeding ID No. 530).

The AESO considers that this Transmission Contribution Policy Proceeding should build on the information in those prior applications, related consultations, and resulting decisions. This proceeding provides an opportunity to reassess and consolidate that information into a comprehensive transmission contribution policy.

The AESO accordingly considers that the specific areas to be examined in the proceeding should include the following.

(a) Review of legislative requirements and policies that impact transmission contributions.
(b) Review of principles and directions established in prior decisions, including Decision 2010-606, that impact transmission contributions.
(c) Review of other generally-accepted regulatory principles and guidelines that are relevant to transmission contributions.
(d) Review of principles and methodologies used for other utilities or in other jurisdictions relevant to transmission contributions, and in particular those used to establish maximum investment levels.
(e) Review of the history of transmission contribution policies in Alberta, including:
   • which legislation, decision, and other requirements, policies, principles, or directions influenced the development and implementation of those policies;
   • changes to the frequency and amount of contributions over time; and
   • effects and impacts of changes in contribution policies on intergenerational equity.
(f) Examination of the capital costs, including related investment and contribution amounts, of transmission connection projects, including factors that contribute to the variability of such costs.
(g) Examination of factors that may result in different considerations applying to expansion projects compared to greenfield connection projects.
(h) Identification of those factors which most frequently result in contributions being paid for a point of delivery connection project.
Investigation of the impacts of contribution policies, maximum investment levels, and contribution levels on market participants and their decisions, including effects and impacts on intergenerational equity and potential means of mitigating such impacts.

Analysis of the impact of changes to contribution policies on rates charged for system access service, including the impact on contribution balances for transmission facility owners and any other potential impacts.

One or more recommendations for determining the appropriate level of contributions that should result from application of a transmission contribution policy, such as guidelines potentially similar to the “80/20 rule” used in some prior applications.

The matters listed above will be examined with particular consideration of effects and impacts on points of delivery serving multiple distribution-connected consumers compared to points of delivery serving direct-connected industrial consumers.

2 Matters Considered Out-of-Scope

Beyond the preceding list of in-scope matters, the AESO suggests that the following matters be considered out-of-scope and excluded from consideration in the Transmission Contribution Policy Proceeding.

(a) Matters related to the AESO’s proposed Amortized Construction Contribution Rider I, as these matters are being comprehensively examined in the 2011 Generic Cost of Capital Proceeding (Application No. 1606549 and Proceeding ID No. 833).

(b) Matters related to the “management fee” proposals of AltaLink Management Ltd. and ATCO Electric Ltd., as these matters are also being comprehensively examined in the 2011 Generic Cost of Capital Proceeding.

(c) The functional form and structure of the maximum investment allowance, as specified in the terms of reference (page 3) provided by the Commission for the Transmission Contribution Policy Proceeding. The AESO interprets the Commission’s statement to exclude consideration of:

- alterations to the functional form of providing investment up to the lesser of connection project costs or a maximum investment level;
- alterations to the structure of the maximum investment level based on the point-of-delivery cost function determined by the AESO and increased by a multiplier (although the level of the multiplier is considered an in-scope matter);
- provision of an unused investment credit (such as the Option B credits provided by FortisAlberta prior to 2002); and
(d) generating unit owner’s contributions as required under Section 29 of the Transmission Regulation.

3 Schedule

24 The AESO notes that Decision 2010-606 has directed that the AESO’s next comprehensive tariff application be filed by March 31, 2013, and that the application include an updated transmission cost causation study. The AESO expects to begin consultation for that tariff application in late 2011 or early 2012.

25 As well, in late 2011 the AESO plans to file its 2012 tariff update, in accordance with the methodology for such updates approved in Decision 2010-606.

26 Having regard for the extent of the in-scope matters discussed above and the other applications just mentioned, the AESO considers there are at least two options for completing the Transmission Contribution Policy Proceeding work. That work may be completed as a stand-alone module or integrated into the 2013 tariff application, as indicated by Options A and B in the table below.

27 The AESO considers that either option would include the following major activities, with suggested dates as indicated.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Option A Proceeding as Stand-Alone Module</th>
<th>Option B Integrated Into 2013 Tariff Application</th>
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</thead>
<tbody>
<tr>
<td>AESO scope and schedule submission (this document)</td>
<td>May 2011</td>
<td>May 2011</td>
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<tr>
<td>Comments from interested parties and AESO reply</td>
<td>Jun 2011</td>
<td>Jun 2011</td>
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<tr>
<td>Commission scope and schedule finalization</td>
<td>Jul 2011</td>
<td>Jul 2011</td>
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<td>comment, and reply process</td>
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<td>policy principles</td>
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<td>Application filing date</td>
<td>Jun 30, 2012</td>
<td>Mar 31, 2013</td>
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The AESO expects to post on its website information from the working group and during preparation of the application, to hold occasional general consultation meetings on the conclusions being reached, and to generally allow for stakeholder involvement throughout the activities listed above.

The stand-alone module approach (Option A) would result in an application nine months earlier than integrating the contribution policy activities into the AESO’s 2013 tariff application (Option B). However, there would be significant overlap of a stand-alone module with the development of the tariff application, and some significant matters related to contribution policy (namely, Rider I and management fee matters) are already being addressed in the 2011 Generic Cost of Capital Proceeding. The AESO submits that integrating the contribution policy activities into the AESO’s 2013 tariff application (Option B) would likely avoid conflict and overlap with development of that application, allow coordination with activities such as development of the point of delivery charge and updated transmission cost causation study, and generally improve regulatory efficiency.

In conclusion, the AESO submits the above information as the proposed scope and schedule required by the Commission’s direction in its letter of April 13, 2011, as first quoted above.

If you have any questions or require additional information, please contact me at 403-539-2465 or by email to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

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