August 23, 2011

AESO Stakeholders

Dear Stakeholders:

Re: **2011 Contribution Policy Proceeding**

The AESO invites you to participate in an initial consultation on the 2011 Transmission Contribution Policy Proceeding. The AESO intends to file this application in June 2012. A consultation meeting has been scheduled as follows:

**Date:** Monday, September 12, 2011  
**Time:** 9:00 to 12:00 AM  
**Place:** AESO Boardroom, 25th Floor, 2500, 330 – 5th Avenue SW, Calgary, Alberta  
**Refreshments:** Coffee, juice, snacks  
**RSVP:** By **Wednesday, September 7, 2011** to Tania Berdine, 403-539-2907 or Tania.berdine@aeso.ca.

The AESO expects to discuss the following topics during the meeting:

- principles of a contribution policy;
- review of rationale, history and factors that influence the development of contribution policies;
- changes in contributions over time;
- requirement for contributions between utilities; and
- formation of and terms of reference for a consultation working group.

**Additional Background**

Attached please find a 2011 Transmission Contribution Policy Discussion Paper. All information relating to the 2011 contribution policy consultation will be available on the AESO website at www.aeso.ca by following the path Tariff ► Current Consultations ► Contribution Policy. As well, new information posted by the AESO on this topic will be mentioned in the AESO stakeholder newsletter, which you can subscribe to by clicking “Sign-up for our stakeholder newsletter” at the lower right of the AESO’s home page at www.aeso.ca.

If you have any questions on the AESO’s 2011 contribution policy application or consultation, please contact me at 403-539-2741 in Calgary or by e-mail to leean.kerr@aeso.ca.
Yours truly,

Lee Ann Kerr
Manager, Tariff Applications

cc:  John Martin
     Heidi Kirrmaier
Transmission Contribution Policy
Discussion Paper

Date:     August 23 2011
Prepared by:    Alberta Electric System Operator
                Regulatory
Prepared for:  2011 Transmission Contribution Policy
                Initial Consultation
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1 Executive Summary

This discussion paper was prepared to address the Alberta Utilities Commission (Commission) Decision 2010-606 with respect to Proceeding ID No. 530, Application No. 1605961, AESO 2010 ISO Tariff. 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.

According, the AUC established Proceeding ID No. 1162 to address the transmission contribution policy.

The AUC issued a final scope of work and application filing schedule on July 12, 2011. The schedule indicated that the AESO should initiate consultation with stakeholders through a discussion paper, comment and reply process. The AESO is soliciting stakeholder input, and invites stakeholders to discuss the material presented in this paper at a meeting at the AESO offices, Boardroom, 9:00 am – 12:00 noon on September 12, 2011.

The AESO will establish a working group to consult on matters considered in-scope.

2 Background

On July 12, 2011 the Alberta Utilities Commission issued a final scope of work and application filing schedule for Application No. 1607193, the Electric Transmission Contribution Policy Proceeding.

The AESO proposes to involve stakeholders in the review and examination of each of the items considered in-scope for the Proceeding. The AUC considered the following in-scope items to be addressed:

(1) Review the rationale, history and factors that influenced the development and implementation of transmission contribution policies, including:
   - Review legislative requirements and policies in Alberta that impact transmission contributions.
   - Review principles and directions established in prior decisions, including Decision 2010-606, that impact transmission contributions.
   - Review other generally accepted regulatory principles and guidelines that are relevant to transmission contributions.
   - Review 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.

(2) Document changes in the frequency and amount of contributions over time.

(3) Examine whether a contribution should be required between two regulated utilities which already have underlying obligations to provide service; examine the potential impact on becoming a direct
connect customer if distribution facilities owners do not have to make contributions in the future; and, investigate the means of mitigating any impacts.

(4) Identify those factors which most frequently result in contributions being paid for a point of delivery connection project, together with
- Examine the capital costs of transmission connection projects, including related investment and contribution amounts and factors that contribute to the variability of such costs between connection projects.
- Examine factors that may result in different considerations applying to expansion projects compared toreenfield connection projects.

(5) Investigate the impacts of contribution policies, maximum investment levels, and contribution levels on market participants, including
- Contribution balances for transmission facility owners and any other potential impacts (excluding Rider I and management fee impacts, which are included as out-of-scope…).
- Impact of changes to contribution policies on rates charged for system access service.
- Effects and impacts on intergenerational equity and potential means of mitigating such impacts.

(6) Develop one or more recommendations for determining the appropriate level of contributions that should result from application of a transmission contribution policy.

3 Review and Discussion Topics
The following review and discussion topics are intended to address items (1) through (3) of the in-scope matters as determined by the Commission.

3.1 Applicable Legislation
In 2003, subsection 30(3) of the Electric Utilities Act was revised to introduce “customers who are industrial systems or a person who has made an arrangement under section 101(2)” into subsection 30(3), which had previously referred only to owners of electric distribution systems.

The AESO considers the following legislation to be key in the discussion of contribution policy principles. From the Electric Utilities Act:

30(3) The rates set out in the tariff

(a) shall not be different for owners of electric distribution systems, customers who are industrial systems or a person who has made an arrangement under section 101(2) as a result of the location of those systems or persons on the transmission system, and

(b) are not unjust or unreasonable simply because they comply with clause (a).
Effective January 1, 2006, the Transmission Regulation distinguished costs paid by generators from transmission embedded costs:

**Local interconnection costs**

28(1) The ISO must include in the ISO tariff

(a) local interconnection costs, as defined by the ISO, payable by an owner of a generating unit for connecting to the transmission system,

(b) the terms and conditions, and

(c) provisions for the recovery of local interconnection costs from owners of generating units.

### 3.2 Established Principles

The following principles were established during the proceedings for the 2005-2006 GTA and the AESO 2007 GTA, and were summarized fully as part of the 2010 GRA. All principles are applicable to the AESO’s contribution policy.

(a) Construction contributions should relate only to the local connection costs for system access service. Deeper system costs are properly the responsibility of all market participants receiving system access service and should be recovered from all market participants through rates for system access service. (Decision 2005-096, page 43)

(b) The underlying purpose of the contribution policy is to send price signals (reflective of the AESO’s economics) to market participants when they are considering siting alternatives for their facilities. (Decision 2005-096, page 43)

(c) An excessive local investment allowance could provide incentives for market participants to pursue higher standards of connection facilities than required and justify doing so on the basis that the cost of the higher standard facilities would not exceed the permitted investment allowance. (Decision 2005-096, page 44)

(d) Because an incremental revenue approach may place undue upward pressure on rates, maximum investment allowances should be below a level representing the incremental revenues expected to arise from the connection of a new system access service. (Decision 2005-096, page 44)

(e) Investment allowances should be set with regard to the anticipated costs of connecting a system access service reflecting acceptable standards of functionality and service established by the AESO. (Decision 2005-096, page 44)

(f) Connection facility service characteristics and standards of functionality may change over time. (Decision 2005-096, page 44)
(g) Cost, not revenue, is the appropriate starting point for establishing the contribution policy. (Decision 2005-096, page 56)

(h) Significant economies of scale occur as the size of connection projects increases, and such economies of scale should be reflected in the functional form of the maximum investment curve. (Decision 2005-096, page 57)

(i) It is still necessary to maintain the dual-use formula (implemented through the substation fraction) to ensure that market participants that are primarily generators are not able to gain an effective exemption from the requirement in the Transmission Regulation that generators are to pay for their local connection costs. (Decision 2005-096, page 61)

(j) The POD cost function used as the basis for the Rate DTS POD charge should be used as the basis for the maximum investment function. (Decision 2007-106, page 92)

(k) Electric distribution system owners and direct-connected market participants should be treated comparably under the contribution policy in the AESO’s tariff. (Decision 2007-106, page 103)

(l) The contribution policy needs to consider minimizing intergenerational inequity; and

(m) The contribution policy needs to consider that most market participants should not pay a contribution for standard facilities, such that utilities are compensated for the assets they own, operate, and use to provide service (Decision 2010-606, page 80).

The commission provided the following comments on these principles in Decision 2010-606:

*The Commission has reviewed the contribution policy principles proposed by the AESO and considers that they reflect cost causation and are consistent with the principles established in previous proceedings.*

*The Commission considers that the overall intent of the contribution policy and maximum investment levels is to achieve a reasonable balance of what an individual customer pays upfront through a customer contribution relative to what all customers in a particular rate class pay through ongoing rates.* (Decision 2010-606 page 80)

### 3.3 “Primary” Principles

The AESO suggests that while some of these preceding established principles can be considered more granular in nature, there are “primary” high level principles that should be identified as an approach to this transmission contribution policy proceeding. Establishing a few high level principles will provide a useful direction to proceed to develop recommendations for determining a contribution level.

The AESO considers the following to be primary principles:

(a) A contribution policy should exert an economic discipline on siting decisions by sending price signals to a connecting customer.
(b) An appropriate cost balance should be established that identifies a level of “averaged” costs and customer-specific costs for each connecting customer.

c) The “postage stamp principle” is upheld, which does not allow for the implementation of a hybrid pricing structure which differentiates between load customers based on their location on the system.

3.4 Review of past EUB and Commission Decisions

The AESO considers the following excerpts to be important when reviewing principles and directions established in prior decisions as they relate to transmission contributions.

3.4.1 Regarding the need for contributions

“The Board considers that customer contributions are suitable in circumstances where service to a customer may impose costs on other customers for which they should not be responsible. An appropriate contribution policy therefore provides a suitable balance to an unlimited obligation to serve by imposing economic discipline on siting decisions. It transfers the economic burden of connection of new customers from the utility and its existing customers to the new customer. In other words, it exerts some of the discipline of the utility’s economics on the economic decision-making of the customer. The Board considers that customer contributions should relate only to the local connection costs of the system expansion. The deep system costs of expansion are properly the responsibility of all customers, form part of the utility’s revenue requirement and should be recovered from all customers through rates.” (EUB Decision 2000-1, p 270).

3.4.2 Postage stamp rates

“The over arching requirement in the EU Act for postage stamp rates does not allow for the implementation of a hybrid pricing structure which differentiates between load customers based on their location on the system. EAL cited the case of Decision U98060 involving Northwestern Utilities Ltd. as an example of where the Board has approved a rate and conditions that might include disparate customer contributions. EAL readily admitted that this case is distinguishable. The most important difference is that, in the case of the TA, postage stamp rates are mandated and in the gas case cited, they are not. The EU Act expressly provides that owners of electric distribution systems pay the same price for transmission service regardless of their location on the transmission system. Pricing of transmission that includes contributions based on costs or benefits caused by customer location will result in prices for service that are different as a result of location. In the view of the Board, this offends Section 27(2)(b) and must be rejected.” (EUB Decision 2000-1, p 270)

3.4.3 Cost vs. revenue issue

“The Board considers that the underlying rationale for the consideration of revenues in the context of a contribution investment policy relates to the manner in which a new customer interconnection may benefit existing customers through a broader sharing of embedded system costs. In this context, the incremental transmission revenue generated by connecting the new customer is also the maximum level of the “willingness to pay” of existing customers. Furthermore, since the Board considers that a new customer may normally be presumed to be seeking an interconnection in order to obtain the benefits of electrical service rather than an investment allowance per se, the Board considers that the new customer should be
provided the incentive to commit an investment as long as the costs of any required interconnection facilities are offset. Thus, there is the potential risk of creating a substantial difference between the respective willingness to pay of the new customers and that of existing customers. The difficulty in creating a utility investment policy is to determine how to design a maximum investment allowance function that will fall at a reasonable level within this range.

Based on evidence brought forward in this proceeding, the Board has determined that cost, not revenue, is the appropriate starting point for establishing the investment policy. As such, rather than being a driver of the investment policy, the Board considers that the primary role that transmission tariff revenues should play is to establish the upper limit of the investment allowance. That is, if the transmission revenues expected to be generated by a new DTS customer over the customer’s contract term are estimated to be less than the expected cost of a standard facility interconnection, the amount of maximum investment function should be limited to no more than the amount of the estimated incremental transmission revenue.” (EUB Decision 2005-096, p 56)

3.4.4 Harmonization

“While the AESO submitted that the degree of harmonization in its tariff is adequate, the AESO also noted that it was contemplating a proposal whereby all Discos would be required to add a stipulation within their terms and conditions that would not permit an investment amount higher than the most economic and technically viable solution, thereby mirroring Article 9.1 of the AESO’s tariff and creating indifference between any requested level of service. The AESO indicated that it was its intention to present this proposal to the Discos and to report to the Board as part of its 2008 GTA or at another appropriate time.

The AESO noted that while some Discos had questioned the interpretation of AESO standard facilities and consequential impacts within the contribution policy, the present process guidelines have greatly increased harmonization between the AESO and Discos.

The Board is encouraged by the AESO’s efforts to comply with these directions and considers that the requirements of the harmonization related directions from Decision 2005-096 have been addressed in full. As such, while the AESO may choose to continue discussions with Discos, which were originally commenced to comply with the Board’s 2005-096 harmonization directions, the Board direction to continue to do so is no longer required.” (AUC Decision 2007-106, p 119)

3.4.5 The “80/20 Rule” and the “Multiplier”

“The Board considers that using a 1.15 multiplier is more than adequate in providing a sufficient investment level of investment based on the 48 point sample dataset. This multiplier works just as well if a 30 point “Greenfield” subset of the 48 point dataset is considered. Further, the 1.15 multiplier was also proposed by the AESO even after it modified its cost function in argument.

As the AESO obtains new TFO project cost information in the future, the 48 point dataset may be expanded and cost functions further analyzed. The key though is that any future changes to the investment function be based on actual project costs, without the potential circular bias that implementing and maintaining an 80/20 rule may impose. The Board observes that the 1.15 multiplier, when applied to the Board approved cost function, achieves a result that is not substantially different than the result that would be produced by
application of an 80/20 rule. To be clear, an 80/20 rule is not to be relied on in future when amending the maximum investment policy.” (EUB Decision 2007-106, pp 97-98).

“The Commission considers that calculation of the maximum investment levels using a multiplier of 1.06 provides for a distribution of investment coverage for connection projects that is similar to that approved in the AESO 2007 GTA. The Commission finds that maintaining similar coverage to historical levels is reasonable and it is not persuaded that further increases to the investment level are required at this time as suggested by the DUC. 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.” (AUC Decision 2010-606, p 82)

3.5 Connection costs in other jurisdictions

3.5.1 Ontario

A new or existing load customer will be required to pay a capital contribution to cover the cost of a connection facility required to meet the load customer’s needs. A capital contribution may only be required to the extent that the cost of the connection facility is not recoverable in connection rate revenues. The contribution is based on an economic evaluation (which is based on the risk category of the connection customer), using a discounted cash flow calculation of forecast rate revenues.

3.5.2 British Columbia

For permanent loads, BC Hydro provides an offset towards the cost of system reinforcements. The customer is responsible for all local connection costs.

3.5.3 Europe

The following information has been adapted from the European Network of Transmission System Operators for electricity document titled “ENTSO-E Overview of transmission tariffs in Europe: Synthesis 2011”, dated May 2011.

Connection charges are “shallow” (only for the connection line and other equipments belonging to the connection) or “deep” (connection line and other equipments belonging to the connection plus the investment costs in the grid due to the connection that has to be borne by the TSO). Connection charges have an impact on the tariff for use of the system since in case of a “deep” approach the concerned costs in the grid are not to be socialized in the tariff. The table also indicates for which countries the industrial customer and DFO are treated differently with respect to investment.
<table>
<thead>
<tr>
<th>Country</th>
<th>Connection charges are “Shallow” or “Deep”?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Deep. Grid user builds own connection line. If grid reinforcements are necessary the user has to pay for this</td>
</tr>
<tr>
<td>Belgium</td>
<td>Shallow</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Shallow</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Shallow</td>
</tr>
<tr>
<td>Croatia</td>
<td>Deep</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Shallow. Customer pays connection lines up to connecting point of TSO. New generation pay a lump sum connection fee of 19.952€/installed MW, New consumption pay a lump sum connection fee of 7.981€/installed MW</td>
</tr>
<tr>
<td>Denmark</td>
<td>Shallow to partially Shallow (in some cases charges are calculated to a fictitious point that can be closer than the physical connection point)</td>
</tr>
<tr>
<td>Estonia</td>
<td>Deep. All the equipment, belonging to the connection and all reinforcements, needed prior to the connection are included in the connection fee.</td>
</tr>
<tr>
<td>Finland</td>
<td>Shallow in most cases, but a possibility to Deep in exceptional cases.</td>
</tr>
<tr>
<td>France</td>
<td>Shallow. The first connection is made to the nearest substation where the adapted voltage level is available and where this connection is technically possible.</td>
</tr>
<tr>
<td>Germany</td>
<td>Deep (customers) shallow (power plants)</td>
</tr>
<tr>
<td>Great Britain</td>
<td>Shallow</td>
</tr>
<tr>
<td>Greece</td>
<td>Shallow</td>
</tr>
<tr>
<td>Hungary</td>
<td>Partially Deep Maximum of 70% of investment costs for customers and 100% for generators; or generators build own connection line. If the generator used at least 50% of renewable energy for its production per year, it pays only 70% of the investment costs, and if this value is at least 90%, it pays only 50% of the investment costs.</td>
</tr>
<tr>
<td>Ireland</td>
<td>Shallow to Partially Deep. The connection charge is based on the Least Cost Chargeable shallow connection method. However the Least Cost Chargeable shallow connection method depends on the availability of appropriate transmission infrastructure in the area e.g. voltage level etc. Charges can also include station common costs or station extension costs (if higher). Demand customers pay only 50% of the charge, generators 100%.</td>
</tr>
<tr>
<td>Italy</td>
<td>Shallow. Grid user bears the cost of own connection line. Enhancements of the grid are socialized in tariff.</td>
</tr>
<tr>
<td>Latvia</td>
<td>Deep. Grid users builds own connection line. All connection equipment and reinforcement are included in the connection fee.</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Deep (100% of investment costs for customers and 100% for Generators. Exceptions are for connection of renewable generators)</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Shallow Grid user has to pay for own connection line and substation. General reinforcements of the grid are socialized in tariff</td>
</tr>
<tr>
<td>FYROM</td>
<td>Shallow Grid user has to pay for the connection line other equipments belonging to the connection. General reinforcements of the grid are socialized in tariff.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Shallow</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Shallow</td>
</tr>
</tbody>
</table>
Norway Shallow

Poland Shallow
The connecting customer finances all the expenditures to build the connection site which contains extension or rebuilding costs for the substation (if necessary). The reinforcement and development of existing network is performed by TFO.

Final customers pay 25%, RES and Co-generation units of installed capacity <=5MW, generators and distribution companies 100% of investment expenditures for typical connection.

Portugal Shallow

Romania Deep

Serbia Shallow: Generators and distributors pay for connection lines aimed at meeting security criteria (the most frequent case is the building of “in-out” connection toward an existing line) and for substation.

Deep: Industrial customers, in addition to payment for connection lines and substations, have to pay connection fees aimed at supporting further network development.

Connection fees are 43 € per approved power in MW.

Note: Generally, in 110 kV network, grid users keep ownership over 110/x kV substations

Slovak Republic Partially Deep.

Distribution companies pay 40% charge, TSO pay 60 % charge.

Direct customers connected on the TSO pay 100% charge.

3.6 Changes in the frequency and amount of contributions over time

This table identifies calculated contribution amounts for connection projects from 2004 to 2011. The year category represents the PPS estimate or P&L approval where available:

<table>
<thead>
<tr>
<th>Year</th>
<th># G/F projects</th>
<th>$ Greenfield contributions</th>
<th># U/G projects</th>
<th>$ Upgrade contributions</th>
<th># of MPs paying a contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>4</td>
<td>$1,735,500</td>
<td>4</td>
<td>$7,025,000</td>
<td>4</td>
</tr>
<tr>
<td>2005</td>
<td>2</td>
<td>$4,741,500</td>
<td>11</td>
<td>$7,367,600</td>
<td>7</td>
</tr>
<tr>
<td>2006</td>
<td>7</td>
<td>$6,384,212</td>
<td>20</td>
<td>$11,369,136</td>
<td>11</td>
</tr>
<tr>
<td>2007</td>
<td>3</td>
<td>$13,913,429</td>
<td>14</td>
<td>$27,329,599</td>
<td>11</td>
</tr>
<tr>
<td>2008</td>
<td>6</td>
<td>$60,886,932</td>
<td>16</td>
<td>$25,121,368</td>
<td>17</td>
</tr>
<tr>
<td>2009</td>
<td>8</td>
<td>$20,508,039</td>
<td>18</td>
<td>$39,785,657</td>
<td>23</td>
</tr>
<tr>
<td>2010</td>
<td>9</td>
<td>$68,521,413</td>
<td>17</td>
<td>$70,195,397</td>
<td>23</td>
</tr>
<tr>
<td>2011</td>
<td>6</td>
<td>$69,204,067</td>
<td>5</td>
<td>$22,911,662</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>$245,895,092</td>
<td>105</td>
<td>$211,105,419</td>
<td>107</td>
</tr>
</tbody>
</table>

Note that these amounts are the calculated amounts, and do not represent final collected amounts for all projects. Also, note that the values for 2011 are as of June 30, 2011.
The following table summarizes AESO contribution policies from 1996 to present:

### Summary of AESO Contribution Policies, 1996–2011

<table>
<thead>
<tr>
<th>Years</th>
<th>Tariff</th>
<th>Maximum Investment</th>
<th>Example Investment</th>
<th>Composite Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-2000</td>
<td>1996 Tariff</td>
<td>$115,000/MW for a 5-year term</td>
<td>7.5 MW $2,325,000</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>Effective: Jan 1, 1996</td>
<td>$200,000/MW for a 10-year term</td>
<td>17 MW $5,270,000</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>Approved: Order U97157</td>
<td>$265,000/MW for a 15-year term</td>
<td>40 MW $12,400,000</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$310,000/MW for a 20-year term</td>
<td>Average $6,665,000</td>
<td>—</td>
</tr>
<tr>
<td>2001-2005</td>
<td>2001 Tariff</td>
<td>$400,000/year after first five years, plus three times levelized annual revenue</td>
<td>7.5 MW $6,873,165</td>
<td>196%</td>
</tr>
<tr>
<td></td>
<td>Effective: Jan 1, 2001</td>
<td>$7,979,174 (14%)</td>
<td>17 MW $7,750,000</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>Approved: Decision 2000-57</td>
<td>$10,656,879 (14%)</td>
<td>40 MW Average $8,503,073</td>
<td>28%</td>
</tr>
<tr>
<td>2006-2008</td>
<td>2006 Tariff</td>
<td>$125,000/year, plus $5,000/MW/year</td>
<td>7.5 MW $3,250,000</td>
<td>(53%)</td>
</tr>
<tr>
<td></td>
<td>Effective: Jan 1, 2006</td>
<td>$4,200,000 (47%)</td>
<td>17 MW $4,200,000</td>
<td>(47%)</td>
</tr>
<tr>
<td></td>
<td>Approved: Order U2005-464</td>
<td>$6,500,000 (39%)</td>
<td>40 MW $6,500,000</td>
<td>(39%)</td>
</tr>
<tr>
<td>2008-2009</td>
<td>2007 Tariff</td>
<td>$51,400/year × SF, plus $28,900/MW/year for first (7.5 × SF) MW</td>
<td>7.5 MW $5,363,000</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>Effective: Aug 1, 2008</td>
<td>$10,000/MW/year for next (9.5 × SF) MW</td>
<td>17 MW $7,263,000</td>
<td>73%</td>
</tr>
<tr>
<td></td>
<td>Approved: Order U2008-217 and Decision 2009-105</td>
<td>$5,900/MW/year for next (23 × SF) MW</td>
<td>40 MW $9,977,000</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$3,100/MW/year for all remaining MW</td>
<td>Average $7,534,333</td>
<td>62%</td>
</tr>
<tr>
<td>2010-2011</td>
<td>2010 Tariff</td>
<td>$51,050/year × SF, plus $34,650/MW/year for first (7.5 × SF) MW</td>
<td>7.5 MW $6,218,500</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>Effective: Jan 1, 2010</td>
<td>$12,800/MW/year for next (9.5 × SF) MW</td>
<td>17 MW $8,650,500</td>
<td>19%</td>
</tr>
<tr>
<td></td>
<td>Approved: Decision 2010-606</td>
<td>$7,750/MW/year for next (23 × SF) MW</td>
<td>40 MW $12,215,500</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$4,200/MW/year for all remaining MW</td>
<td>Average $9,028,167</td>
<td>20%</td>
</tr>
<tr>
<td>2011</td>
<td>2011 Tariff</td>
<td>$50,050/year × SF, plus $34,000/MW/year for first (7.5 × SF) MW</td>
<td>7.5 MW $6,101,000</td>
<td>(2%)</td>
</tr>
<tr>
<td></td>
<td>Effective: Jul 1, 2011</td>
<td>$12,550/MW/year for next (9.5 × SF) MW</td>
<td>17 MW $8,485,500</td>
<td>(2%)</td>
</tr>
<tr>
<td></td>
<td>Applied for: Feb 6, 2011</td>
<td>$7,600/MW/year for next (23 × SF) MW</td>
<td>40 MW $11,981,500</td>
<td>(2%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$4,100/MW/year for all remaining MW</td>
<td>Average $8,856,900</td>
<td>(2%)</td>
</tr>
</tbody>
</table>

Cumulative, 1996 to 2011: 33% 51%
3.7 Contributions between two regulated utilities

As part of the AESO’s 2005/2006 GTA, the AESO proposed to waive contributions in respect of transmission projects at PODs where multiple users are served by a distribution utility. The AESO submitted that the availability of a contribution waiver in respect of distribution utility PODs serving multiple customers was necessary because:

a) regulated utilities have an obligation to serve regardless of any limits imposed by the AESO’s contribution policy; and

b) distribution utilities have little if any influence over the amount, location, or timing of the load growth that they are obligated to serve.

In Decision 2005-096 (page 59-60) the AUC’s predecessor (EUB) noted:

“The Board agrees with the AESO’s observation that there are fundamental differences between distribution utilities and industrial customers. In particular, the Board agrees that whereas a regulated distribution utility has a statutory obligation to provide adequate service in response to load growth that it cannot dissuade or otherwise control, there is no analogous requirement on an industrial customer to ensure that it receives electric service at some predefined minimum level of service and reliability. The Board further notes that, unlike the AESO’s industrial customers, the AESO’s distribution utility customers have the ability to collect revenues reflective of the prudent costs of carrying out their statutory obligations through the regulated distribution utility’s tariff. As such, in the event that a transmission facility investment required by a regulated distribution utility is not fully covered under the AESO’s contribution policy, the distribution utility should generally be able to expect that the costs of a customer contribution paid to the AESO may be recovered by flowing the cost of the customer contribution through the regulated distribution utility’s revenue requirement. By contrast, industrial customers do not enjoy a comparable guarantee that they will be able to pass along any customer contribution costs through the costs of the products they may produce.

Notwithstanding these noted differences, the Board is not persuaded that it is necessary or appropriate to grant a waiver from customer contributions otherwise payable by the distribution utility to the AESO. In particular, given that a distribution utility should generally be able to recover customer contributions arising from AESO facility projects through the distribution utility’s own tariff, the assessment of a contribution waiver is reduced to a question of whether the contribution costs should be spread more narrowly through a specific distribution utility’s tariff or shared more broadly under a waiver scenario that would see these costs being absorbed within the AESO’s revenue requirement.”

In Decision 2010-606, the Commission pursued potentially reviewing a waiver of distribution facility owner contributions. The AESO indicated that it had not included any proposals to offer a contribution waiver to DISCOs within the application, because it believed that the Commission’s predecessor had denied this proposal. To address this, the AUC commented (pg 57):

“In light of the increasing significance of aggregate levels of contributions as an offset to TFO rate base, the Commission considers that there is merit in re-examining the requirement for parity between DISCOs and direct-connect customers under the AESO’s contribution policy.”
The AESO also provides the following information on contributions between regulated utilities in other jurisdictions.

### 3.7.1 Ontario
Distributors are not treated differently by the TFO than other customers; however the economic analysis that determines the contribution is slightly different.

### 3.7.2 BC
No obvious distinction between distribution customers and industrial customers (there are still remnants of integration so it is difficult to tell).

### 3.7.3 California
Distributors and direct-connects pay the full cost to connect (local interconnection costs), but they are charged different rates.

### 3.7.4 New York
The NY Public Service Commission does not allow for the differential treatment of any "customers". Customers can be DISCOs or industrials.

## 4 Next Steps

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder meeting</td>
<td>September 12 2011</td>
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<tr>
<td>Terms of reference discussion</td>
<td></td>
</tr>
<tr>
<td>Solicit stakeholder input</td>
<td></td>
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<tr>
<td>Comments/feedback on stakeholder discussions due</td>
<td>September 26 2011</td>
</tr>
<tr>
<td>AESO responses to comments/feedback</td>
<td>October 3 2011</td>
</tr>
<tr>
<td>Post request for stakeholders to participate in working group</td>
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<tr>
<td>Establish a working group to examine principles and guidelines – first meeting</td>
<td>October 10 2011</td>
</tr>
<tr>
<td>Working group examination and development of transmission contribution policy</td>
<td>November 2011 – February 2012</td>
</tr>
<tr>
<td>AESO preparation and filing of application</td>
<td>March 2012 – June 2012</td>
</tr>
<tr>
<td>Application filing date</td>
<td>June 20, 2012</td>
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</tbody>
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