September 28, 2011

Dear Market Participants and Interested Parties:

Re: Letter of Invitation to Participate in AESO Working Group on 2011 Transmission Contribution Policy Proceeding

The AESO is soliciting members to participate in the 2011 Transmission Contribution Policy consultation. This consultation will:

(1) Establish a working group
(2) Review contribution policy principles and guidelines
(3) Analyze historical contribution data
(4) Identify options and opportunities to update the AESO contribution policy

Attached are the proposed Working Group Terms of Reference for the AESO consultation on the 2011 Transmission Contribution Policy. The Terms of Reference set out the proposed scope and approach for this consultation.

You are encouraged to participate in this consultation and comment on the Terms of Reference. Stakeholders are requested to use the attached comment matrix to provide comments on the attached Terms of Reference.

Written comments on the Terms of Reference and requests to be working group participants must be submitted to Lee Ann Kerr, at leeann.kerr@aeso.ca by October 7th, 2011.

After receiving written comments from stakeholders, the AESO will post all comments received on the AESO website, and will include replies to matters raised in the comments. The AESO will amend the Terms of Reference as required, and post them on the AESO website at the same time the stakeholder comments and AESO replies are posted. Following this, the AESO will initiate consultation activities in accordance with the amended Terms of Reference.

The AESO thanks stakeholders for their participation in this consultation.

Sincerely,

Lee Ann Kerr

Manager, Tariff Applications

cc: John Martin
    Heidi Kirrmaier

Attachments
(1) Working Group Terms of Reference
(2) Stakeholder Comment – AESO Reply Matrix
Terms of Reference

Proposed AESO Terms of Reference for Consultation on
2011 Transmission Contribution Policy Working Group

1. Purpose

The AESO develops and submits for approval to the Alberta Utilities Commission (“Commission”), the ISO Tariff, which includes rates and terms and conditions. The terms and conditions outline investment levels and contribution calculations. The purpose of this Terms of Reference document is to identify the scope and duties for the 2011 Transmission Contribution Policy Working Group as defined in the sections below.

This Terms of Reference is a living document and may be amended from time to time, as required. Any amendments to the Terms of Reference will be posted on the AESO website and notification will be provided in the AESO newsletter, published semi-weekly.

As part of the Commission’s Decision 2010-606 with respect to Proceeding ID No. 530, Application No. 1605961, AESO 2010 ISO tariff, 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.

Accordingly, 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. An initial consultation meeting took place on September 12, 2011. Stakeholder comments on the initial consultation and the discussion paper were posted on the AESO web-site.

The AESO is establishing a working group to consult on matters considered in-scope.
The AESO 2011 Transmission Contribution Policy Working Group will be a forum for stakeholders to provide perspective, advice, and expertise to the AESO on specific topics of the AESO’s contribution policy. The working group is intended to augment the internal capabilities of the AESO and support effective consultation by engaging stakeholders in the development of an application on the AESO’s contribution policy.

Potential working group members are requested to submit their interest in participating in the 2011 Transmission Contribution Policy working group, by contacting Lee Ann Kerr at (403) 539-2741, or by e-mail at leeann.kerr@aeso.ca. The working group kick-off meeting is scheduled for Monday, October 17th, 2011, 9:00 am – noon, at the AESO offices (AESO boardroom).

2. Stakeholder Participation

The working group will consist of AESO stakeholders and AESO employees with interest, expertise, or both.

The working group will have a maximum of eight to ten members (excluding AESO employees). No more than four representatives from a single `stakeholder segment (industrials, DFOs and TFOs) will be in the working group. Membership will generally be on a first come, first served basis. If required, the AESO will balance working group representation for all stakeholder segments. Stakeholder involvement in a working group is voluntary.

Stakeholders interested in participating in this working group and/or commenting on the Terms of Reference should submit written comments, by October 7th, 2011. After receiving written comments the AESO will reply to the comments, post the comments and AESO replies, and post the amended Terms of Reference. A list of working group members participating in this consultation can be found in Appendix 1. (Please note that the AESO will populate Appendix 1 with a list of market participants and interested parties participating in this consultation after receiving written comments on the Terms of Reference).

3. AESO Principles and Steps for ISO Tariff Consultation

The AESO developed a set of consultation principles to ensure its consultation is inclusive, transparent, fair and efficient. Please refer to Appendix 2 to review these principles. For consistency, and to compliment the consultation principles, the AESO carries out its consultation through a series of steps which can be found in Appendix 3 of this document.

The AESO 2011 Transmission Contribution Policy Working Group will provide the following:

(a) Advice and expert comments on specific topics being considered as part of the AESO’s 2011 Transmission Contribution Policy Application.
(b) Suggestions to improve the studies, analysis, rates, and terms and conditions that will comprise the AESO’s application.

c) Identification of legislation, policy, prior regulatory decisions, principles, precedent, and practices that are relevant to the topic being examined by the working group.

The activities of the 2011 Transmission Contribution Policy Working Group will be consistent with the AESO’s mandate to prepare a tariff that is just and reasonable, and that is not unduly preferential, arbitrarily or unjustly discriminatory, or inconsistent with or in contravention of any applicable law.

The working group will consider topics in the context of an overall Alberta perspective that will improve the fairness, efficiency, clarity, and consistency of the AESO’s contribution policy.

4. Scope

Working groups will review and discuss options and alternatives for proposals being considered for inclusion in the AESO’s 2011 Transmission Contribution Policy Application. Working groups are not decision-making bodies. Consultation within working groups will not replace general stakeholder consultation. The AESO will consider consultation within the working groups in the context of its broader stakeholder consultation.

The AESO will organize meeting dates and times. Meetings are expected to occur about every three or four weeks, for three hours. Meeting agendas will be prepared and communicated in advance as much as practical. Members may participate in meetings via conference call. A working group will generally be coordinated and chaired by an AESO employee. Meetings will be held at the office of the AESO. Non-working group members are encouraged to provide input on any topics through working group members.

Working group members are expected to dedicate appropriate time to actively participate in working group meetings, to review material prior to meetings, and to address questions raised and issues identified following the meetings. Working group members may assign work to others within their organizations with appropriate technical or regulatory expertise on the topic.

Working group members are expected to engage in informal open discussion on a “without prejudice” basis. Although discussion in working groups will not be presented as evidence in the AESO’s tariff application proceeding, the AESO and participants may refer in their respective evidence to any conclusions they reach as a result of working group discussion. A participant or representative on any working group will not be precluded from participating in the AESO’s tariff application proceeding before the AUC. Neither stakeholders nor the AESO will be limited in any way from expressing views that may differ from those expressed in the working group. However, all participants are expected to engage in meaningful and transparent dialogue in the working groups.
The activities of the working groups and related written documents will be communicated to stakeholders through postings on the AESO website, as appropriate. However, minutes of discussion and transcripts of conversations will not generally be prepared. All material will be assumed to be non-confidential unless identified otherwise. All such material will be available on the AESO website at www.aeso.ca by following the path Tariff ► Current Consultations ► Contribution Policy. All stakeholders will generally have opportunity to comment on the material posted, as part of comment processes in the AESO’s general stakeholder consultation.

Working group conclusions will be considered by the AESO in developing proposals for the application. The AESO’s will reflect decisions consistent with legislation, policy, and the AESO’s mandate, considering the input and advice provided by the working group. The rationale for the AESO’s proposals will be included in the application. The AESO will present results/conclusions drawn from the working group meetings to a larger stakeholder community in December 2011, and again in February 2012.

The working group is proposed to examine the following topics for the AESO’s 2011 Transmission Contribution Policy Application. Some issues are suggested for exploration within each topic, although the AESO considers that the members of the working group will participate in determining what issues should be examined for each topic.

(a) Contribution policy principles
   - Determine applicable principles
   - Identify principles where there is high or low consensus
   - Weighting of principles
   - Update established principles to reflect current policies
   - Consider cost versus revenue components

(b) Contribution policy guidelines
   - Examine the “80/20 rule”, revenue tests and other possible mechanisms
   - Examine the effects of increased contributions and the impact on market participants
   - Identify the rationale and justification for a “multiplier”
   - Determine the basis for the multiplier
   - Identify an appropriate balance of “averaged” and customer-specific costs

(c) Contribution data analysis
   - Investigate transmission contribution policies in other jurisdictions
   - Collect historical contribution info for analysis
   - Examine the contribution policy changes that have resulted in increased contributions

(e) Contributions between utilities
   - Discuss differences between DFOs and industrials and which principles may not apply specific participants (economic discipline on siting decisions)
   - Establish rationale and recommendations pertaining to the differential treatment of participants (DFO, industrial)
   - Identify impacts on DFOs and industrials
Terms of Reference (f) Recommendations

- Identify options and opportunities
- Describe impact on rates and contribution balances for each option
- Identify other potential impacts or unintended consequences

(g) The 2011 Transmission Contribution Policy application

- Discuss possibility of a Negotiated Settlement Agreement
- Address rate impacts of quantitative assessment within the application

5. Out of Scope

This Terms of Reference paper and consultation does not include:

- Refinements 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 POD cost function and increased by a multiplier;
- Provision of an unused investment credit;
- Matters related to the AESO’s proposed Amortized Construction Contribution Rider I;
- Matters related to the “management fee” proposals of Altalink Management Ltd. and ATCO Electric Ltd.; and
- Generating unit owner’s contributions.

6. Consultation Record

The documents prepared by the AESO and stakeholders in the context of this consultation process will be posted on the AESO website and will form part of the AESO’s consultation record.

As the AESO conducts its consultation a chronology of events and documents will be documented in the table attached as Appendix 4. After the AESO completes its consultation all activities performed and documents posted as part of that consultation will be listed in this appendix. After updating this appendix the AESO will post the final amended Terms of Reference on the AESO website.

Below is a working group schedule the AESO is proposing for the 2011 Transmission Contribution Policy Application, and tentative meeting dates.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>Working Group Meeting #1</td>
<td>October 17, 2011</td>
</tr>
<tr>
<td>• Review working group Terms of Reference</td>
<td></td>
</tr>
<tr>
<td>• Discuss contribution principles and guidelines</td>
<td></td>
</tr>
<tr>
<td>• Review contribution data</td>
<td></td>
</tr>
<tr>
<td>Working Group Meeting #2</td>
<td>November 7, 2011</td>
</tr>
<tr>
<td>• Examine whether a contribution should be required between utilities</td>
<td></td>
</tr>
<tr>
<td>• Discuss impacts on customers and investigate means of mitigating impacts</td>
<td></td>
</tr>
<tr>
<td>Working Group Meeting #3</td>
<td>November 28, 2011</td>
</tr>
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<td></td>
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</tbody>
</table>
- Examine capital costs of connection projects and factors that contribute to variability
- Consider differences between expansion and Greenfield projects

**Working Group Meeting #4**
- Review maximum investment level
- Identify any opportunities to address TFO contribution balances
- Discuss impact on rates
- Determine ways to mitigate intergenerational inequities

December 19, 2011

**Working Group Meeting #5**
- Develop recommendations

January 16, 2012

**Working Group Meeting #6**
- Develop recommendations

February 6, 2012

**Working Group Meeting #7**
- Finalize recommendations

February 27, 2012
Appendix 1 – List of 2011 Transmission Contribution Policy working group members

(The AESO will populate Appendix 1 with a list of market participants and interested parties participating in this consultation after receiving written comments on this Terms of Reference paper.)
Appendix 2 – AESO Consultation Principles for ISO Tariff

The AESO principles for consultation the Tariff are intended to provide guidance respecting the conduct of both the AESO and stakeholders. The AESO principles for consultation are as follows:

1. The ISO consultation process will be inclusive, transparent, fair and efficient and will be understood and accepted by all parties.

2. All parties will act in good faith and in a fair and respectful manner when engaged in the ISO consultation process.

3. The AESO has a statutory obligation to ensure the safe and reliable operation of the Alberta interconnected electric system (“AIES”) and to promote a fair, efficient and openly competitive market for electricity. In the ISO consultation process, the interests of individuals must be considered in the context of the reliable operation of the AIES and in the public interest as a whole.

4. The ISO consultation process, particularly with respect to the degree of detail of information provided by the AESO and stakeholders, the time required for review of that information, and the amount of related discussion, will be commensurate with the importance, complexity, potential impacts, and urgency of the ISO tariff changes.

5. The AESO will commence consultation early to allow sufficient time for stakeholder participation and will provide stakeholders with complete, accurate, timely and comprehensible information. AESO information will be made available in a manner that stakeholders can readily understand and with adequate time for review and consideration.

6. The ISO consultation process will involve a full discussion of the views of the stakeholders in order to enable the AESO to make the best decision possible in the context of the AESO statutory mandate.

7. The AESO may develop a written Terms of Reference for each ISO consultation process, which may include description of relevant issues, establishment of working groups, one or more technical conferences, and a proposed schedule of key dates. The AESO will seek stakeholder input before finalizing each Terms of Reference.

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1 A written Terms of Reference may not be appropriate in all cases depending on the complexity of the draft ISO rule changes
8. Stakeholders will be given the opportunity to provide written comments in response to AESO documentation made available during the ISO consultation process.

9. Each stakeholder will raise all concerns or suggestions for improvement, and provide those concerns or suggestions for improvement in writing for discussion with others participating in the ISO consultation process and to share information necessary for others to understand and evaluate those concerns or suggestions.

10. All Terms of Reference, AESO information, comments from stakeholders with AESO replies, agendas and action items will be in writing and will be posted on the AESO website. Only those comments received from stakeholders in writing will be considered by the AESO when finalizing proposed ISO tariff changes.

11. When finalizing the proposed ISO tariff changes, the AESO will have regard for all written stakeholder input received during the ISO consultation process and will provide a written explanation where the proposed ISO tariff changes could not address a stakeholder concern or accommodate a stakeholder suggestion.

12. While written input from stakeholders during the ISO consultation process will inform the AESO’s decision-making, the responsibility for the decision rests with the AESO, pursuant to its statutory mandate.
Appendix 3 – ISO Rule Consultation Process Steps

The table below provides a comprehensive list of all the steps the AESO may consider when consulting on the ISO tariff. Please note that not all the steps are mandatory. The AESO may exclude certain non-mandatory steps as warranted by the nature and complexity of the documents related to the consultation.

<table>
<thead>
<tr>
<th>Type</th>
<th>Consultation Process Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Gathering and Issue Assessment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory</td>
<td>Step 1.0</td>
<td>A requirement to explore an issue or need for ISO tariff changes has been identified.</td>
</tr>
<tr>
<td>Mandatory</td>
<td>Step 2.0</td>
<td>AESO issues an invitation to stakeholders to participate in the ISO tariff consultation process, including a proposed Terms of Reference. The invitation may include other briefing materials. AESO requests comments from stakeholders by issuing a comment matrix in regards to the proposed Terms of Reference and briefing materials.</td>
</tr>
<tr>
<td>Discretionary</td>
<td>Step 3.0</td>
<td>AESO holds an initial stakeholder meeting (if appropriate).</td>
</tr>
<tr>
<td>Discretionary</td>
<td>Step 4.0</td>
<td>Stakeholders provide written comments to the AESO on the proposed Terms of Reference and briefing materials (if any).</td>
</tr>
<tr>
<td>Mandatory</td>
<td>Step 5.0</td>
<td>AESO replies to stakeholder comments. AESO then determines if further consultation is appropriate.</td>
</tr>
<tr>
<td>Discretionary</td>
<td>Step 6.0</td>
<td>AESO may hold workshops and/or technical sessions (if appropriate).</td>
</tr>
<tr>
<td>Developing the Policy Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discretionary</td>
<td>Step 7.0</td>
<td>AESO issues a Recommendation Paper to stakeholders for review and comment.</td>
</tr>
<tr>
<td>Discretionary</td>
<td>Step 8.0</td>
<td>Stakeholders provide written comments on the Recommendation Paper.</td>
</tr>
<tr>
<td>Mandatory</td>
<td>Step 9.0</td>
<td>AESO replies to stakeholder comments. AESO then</td>
</tr>
</tbody>
</table>
determines if further consultation is appropriate.

<table>
<thead>
<tr>
<th>Type</th>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretionary</td>
<td>10.0</td>
<td>AESO may hold workshops and/or technical sessions (if appropriate).</td>
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</tbody>
</table>

**ISO Tariff Development and AUC Filing**

<table>
<thead>
<tr>
<th>Type</th>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mandatory</td>
<td>11.0</td>
<td>AESO files ISO tariff application</td>
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</tbody>
</table>
Appendix 4 – Chronology of the Consultation Record

After the AESO completes its consultation all activities performed and documents issued as part of that consultation will be listed in this appendix. After updating this appendix the AESO will post the final amended Terms of Reference on the AESO website.

<table>
<thead>
<tr>
<th>No.</th>
<th>Activity or Document</th>
<th>Description &amp; Purpose of Activity or Document (including various key decisions made)</th>
<th>Parties Involved</th>
<th>Date (1) date of document and date provided to stakeholders / AESO, if different; or (2) date of stakeholder session</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AUC identifies scope and schedule for 2011 Transmission Contribution Policy Proceeding</td>
<td>Scope of work and application filing schedule</td>
<td>AUC</td>
<td>Jul 12 2011</td>
</tr>
<tr>
<td>2</td>
<td>AESO issues a 2011 Transmission Contribution Policy Discussion Paper and a Letter of Invitation to stakeholders to participate in an initial consultation meeting</td>
<td>Discussion paper identifying contribution policy principles and past supporting AUC decisions.</td>
<td>AESO</td>
<td>Aug 23 2011</td>
</tr>
<tr>
<td>3</td>
<td>AESO holds an initial consultation meeting and discussion</td>
<td>Meeting to discuss material in discussion paper</td>
<td>AESO and stakeholders</td>
<td>Sep 12 2011</td>
</tr>
<tr>
<td>4</td>
<td>AESO posts presentation material from initial consultation meeting</td>
<td>Presentation material</td>
<td>AESO</td>
<td>Sep 13, 2011</td>
</tr>
<tr>
<td></td>
<td>AESO posts comments received from stakeholders regarding the Discussion Paper and 2011 Transmission Contribution Policy principles</td>
<td>Comments received regarding discussion paper materials</td>
<td>AESO and stakeholders</td>
<td>Sep 28 2011</td>
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</tr>
<tr>
<td>5</td>
<td>AESO posts a Working Group Terms of Reference, and solicited members for the 2011 Transmission Contribution Policy Working Group</td>
<td>Terms of reference for working group</td>
<td>AESO</td>
<td>Sep 28 2011</td>
</tr>
</tbody>
</table>