September 28, 2011

Dear Market Participants and Interested Parties:

Re: Stakeholder Comments on 2011 Transmission Contribution Policy Discussion Paper

Attached please find stakeholder comments received in response to the AESO’s 2011 Transmission Contribution Policy Discussion Paper of August 23, 2011, and initial consultation meeting held on September 5, 2011.

The AESO notes that it intends to discuss a large list of topics as part of the Transmission Contribution Policy Working Group consultation. This will include analysis of appropriate contribution principles and guidelines, including discussions involving revenue tests, multipliers, and other mechanisms used to establish maximum investment levels.

The AESO is committed to working collaboratively with the Working Group to review, analyze and recommend an appropriate and fair contribution policy as part of the 2011 Transmission Contribution Policy Proceeding and ultimate application.

All information related to the 2011 Transmission Contribution Policy consultation is available on the AESO’s website at www.aeso.ca by following the path Tariff ► Current Consultations ► Contribution Policy.

Thank you to all stakeholders who submitted comments. The AESO appreciates stakeholder comments and all written comments received have been considered by the AESO in the Working Group Terms of Reference.

Written comments on the Working Group 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.

Sincerely,

Lee Ann Kerr
Manager, Tariff Applications

cc: John Martin, Director, Tariff Applications
    Heidi Kirrnaier, Vice-President, Regulatory, AESO
1. Pursuant to the AESO’s *Transmission Contribution Policy Discussion Paper* of August 23, 2011, FortisAlberta writes to provide comments and input on discussions to date in this Proceeding.

2. FortisAlberta participated in the September 12, 2011 consultation meeting and has reviewed the discussion paper and has comments with regard to the “primary” principles provided by the AESO, the AUC’s interest in investigating contributions between utilities and recommendations for the working group’s focus.

**Primary Principles**

3. FortisAlberta supports a principle based approach to the development of the transmission contribution policy. In its discussion paper, the AESO sets out what it considers to be the applicable legislation, and principles or determinations established by the Commission (or EUB, its predecessor) in past decisions that are relevant to the transmission contribution policy. The AESO also proposes and requests comment on what it considered to be three “primary” principles for a transmission contribution policy.

4. However, even though the Proceeding’s in-scope items include reviewing other generally accepted regulatory principles/guidelines and principles/methodologies used for other utilities that are relevant to transmission contributions, the AESO did not include any reference to the Guiding Principles that the Commission’s regulated electric distribution utilities have been following in the “Common Approach to Maximum Investment Levels
These guiding principles were the result of a FortisAlberta-led consultation on investment matters and used to determine MILs in recent FortisAlberta (Appendix O in the FortisAlberta 2010/2011 DTA) and ATCO Electric (2011/2012 DTA) filings. These principles should be regarded as relevant to transmission contributions as they are used for wires investment at the distribution level and it is important to harmonize the policies for transmission and distribution in Alberta. FortisAlberta has excerpted and provided these guiding principles as information for parties to consider in this proceeding (Appendix 1 to these Comments).

5. Similarly, AltaLink led an industry consultation on the matter of the AESO customer contribution policy in 2008 and then provided recommendations on Guiding Principles to the AESO for its 2010 tariff application. Significant effort, collaboration and consensus from market participants was attained on these principles and they are comparable to those put forth by the distribution utilities. As such, rather than starting from the beginning, FortisAlberta has also excerpted and provided these guiding principles for information to parties to consider in this proceeding (Appendix 2).

6. With some slight wording refinements, FortisAlberta would generally agree with the AESO’s proposed primary principles, but there may be more that should be considered. The AESO appropriately considered some of the principles beyond their three primary principles as more “granular” in nature. For example, minimizing intergenerational inequity and upward pressure on rates could be considered as part of the “appropriate balance” principle, and the 80/20 guideline is really a method of achieving the principles rather than a principle itself. However, some of the higher level concepts such as cost causation, harmonization among utilities, and costs rather than revenues as the starting point for establishing investment levels, may be more overarching principles. In any event, FortisAlberta would recommend that the working group refine the set of principles based on the feedback received and the extensive work that has recently been done on this issue.
Contributions between Utilities

7. Matters considered in-scope by the AUC continue to include:
   
   (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.

8. While FortisAlberta understands the Commission’s desire to review this item in light of the high levels of contributions experienced by all wires utilities in Alberta and the resulting management fee proposals, FortisAlberta can see some significant disadvantages to pursuing such an approach. To do so, would essentially undercut the purpose and principles of a customer contribution policy. Further, while here may be some differences between distribution companies and direct connect industrial customers in terms of responding to a price signal, it should to be recognized that the distribution companies are acting on behalf of transmission connected and distribution connected industrial customers as well. Therefore, if contributions were waived for distribution companies, they are essentially being waived for the distribution companies’ industrial customers too.

9. It is expected that entertaining such changes would require significant changes to other elements of the AESO tariff (separate cost allocations and/or rate classes). This would effectively lead to issues around the differences between the transmission component of the distribution companies’ tariffs and the AESO tariff applied to a direct connect customer. This end result would be a de-harmonization for large industrial customers served by a distribution company versus those who are released to be a direct customer of the AESO. FortisAlberta believes this would ultimately result in additional unforeseen issues around the granting of Section 101(2) EUA releases and impede the orderly, economic and efficient development of the Interconnected Alberta Electric System as customers would have financial incentives to choose service between the AESO and/or the distribution companies. Any such waiver of contributions would likely apply, and effectively remove any price
signals, to most transmission extensions in the province, given that the customer is the
distribution utility for most extensions (apart from ISDs and EUA Section 101(2) direct
connects).

10. For the above reasons, FortisAlberta would recommend that the working group focus its time
on developing an appropriate response to the Commission outlining why such an approach is
not supportable and focus more attention to addressing the real issue, which is the frequency
and magnitude of customer contributions being too high due to investment levels being too
low on balance.

SUBMITTED BY FORTISALBERTA INC. THIS 26th DAY OF SEPTEMBER, 2011.
Appendix 1: Distribution Utilities’ Common Approach to MILs

3.3 Recommended Guiding Principles

After reviewing the guiding principles that have been referenced and applied in the past, the Utilities collaborated on developing the following set of Guiding Principles. Three of the four Utilities support all ten of these Common Guiding Principles in their entirety, while one of the Utilities supports the first nine principles and cites its concerns around Principle #10 in the consolidated comment matrix. Please refer to Attachment 1 for a summary of the comments received from the consultation participants with regard to these Guiding Principles.

1. MILs should be set to achieve a **reasonable balance of what an individual customer pays upfront through a customer contribution versus what all customers in a particular rate class pay through ongoing rates**. In other words, new customers should receive a fair and sufficient level of investment such that the majority of customers do not pay contributions for connecting, while still ensuring that existing customers are not unduly burdened by the cost of such new services.

2. MILs should **provide economic discipline** and price signals to new customers as they are connected to the interconnected transmission and distribution system, and these levels should be aligned with encouraging the **best long term economic and technical solution** to meet standard service requirements.

3. The maximum amounts that the company invests in a new extension on behalf of all customers should consider the **expected longevity or any other risks** associated with the new service.

4. The **current cost** to connect new customers is the appropriate starting point for establishing MILs.
5. Setting of MILs needs to respect each utility's standards of service, while recognizing that these standards and the associated costs will change over time.

6. Changes to MILs should balance the need to attain the target MILs over a reasonable timeframe, while ensuring there is not undue upward pressure on tariff rates.

7. Adjustments to MILs should consider minimizing intergenerational inequity and cross-subsidy, whereby the portion of the cost of an extension that the company invests in should be in similar proportion with previously established investment levels. Both new and existing customers should be treated similarly to the extent possible and should see a similar price signal when the system is or was extended to provide service.

8. To the extent practical, the structure of MILs (ex. fixed dollar amount, or $/unit) should generally align with cost causation and the rate structure which is applied to the customer.

9. MILs should be simple to administer and applied in a consistent and transparent manner.

10. Utilities should take into consideration the approaches of neighbouring utilities when developing MILs. In a reasonable timeframe, individual company’s MILs should move towards an AUC-adopted, common approach to setting investment levels for Alberta utilities.

FortisAlberta submits that, if adopted by the AUC, these Principles have the advantage of providing a more concrete foundation on which to establish MILs and should be considered when establishing future MILs in Alberta.
Appendix 2: AltaLink Consultation

1.0 Guiding Principles

The working group identified a main concern that the Customer Contribution Policy does not currently have an established set of Guiding Principles. In this regard, the objectives of the policy are unclear. The Working Group recommends adoption of the following set of Guiding Principles:

1.1 The Customer Contribution Policy needs to consider economic signals to customers to encourage the best long term economic solution.
   The maximum investment level and the required customer contribution will send economic signals to customers. These signals should financially encourage customers to make interconnection decisions that are the most economical (for themselves and the system), while considering the long term transmission plan.

1.2 The Customer Contribution Policy needs to consider the best long-term economic and technical solution to meet standard customer and system requirements.
   An interconnection Proposal should consider both the economics of the interconnection proposal (investment and customer contribution) as well as the best technical solution. This should be based on the needs of standard customer and system requirements. This all must be considered in the context of concerns around the environmental and other community issues.

1.3 The Customer Contribution Policy needs to consider that technical interconnection solutions and current interconnection costs drive the investment levels, not vice versa.
   Costs to interconnect customers will fluctuate as the market for materials and labour varies. Depending on the technical details of the interconnection and the fluctuating costs the investment level should vary correspondingly. In addition, the contribution formula should not lead to sub-optimal technical solutions.

1.4 The Customer Contribution Policy needs to consider current utility standards of service, and that standards may change over time.
   Utility standards vary over time and the investment level, and therefore the customer contribution, should vary to match those varying standards.

1.5 The Customer Contribution Policy needs to consider minimizing intergenerational inequity.
   Recognizing cost inflation, the maximum investment and therefore the customer contribution, should strive to be fair between customers of different vintages. To the extent possible, new customers, or customers increasing their service level, should not proportionately pay any more, or less, then customers who have been on the system for a period of time.
1.6 The Customer Contribution Policy needs to consider harmonization among utilities (including the AESO) to ensure a consistent approach and treatment for all customers.

In order to maintain equity, customers in different jurisdictions, or served at the transmission or distribution levels, should be treated fairly. Given that the tariffs may be different, the maximum investment calculation may not be identical. As well, aligning utility investment levels with the AESO’s investment level will help to minimize customer confusion and sub-optimal system development.

1.7 The Customer Contribution Policy needs to consider incremental revenue from interconnection of new customers compared to the cost to serve them.

As new customers interconnect to the AIES they will provide incremental revenue to the utility serving them. This revenue should be compared to the costs to interconnect them.

1.8 The Customer Contribution Policy needs to consider most customers should not pay a contribution for standard facilities. In this way, utilities would be compensated for the assets that they own, operate, and use to provide service.

Historically, policy in Alberta has supported postage stamp rates wherein transmission load customers with reasonable interconnection costs do not pay up-front costs to interconnect to the AIES. Reasonable interconnection costs are recovered from customers, via tariffs, over the life of their connection to the system. This results in utilities being compensated for owning and operating assets that they utilize to serve customers. This principle has been largely met in some tariffs by applying the “80/20 rule.”

1.9 The Customer Contribution Policy needs to consider that the methodology should be simple to administer and applied in a consistent and transparent manner.

The more simple, consistent and transparent the investment policy is, the easier it will be for customers to understand it and have confidence in it. This should reduce the amount of utility staff time required to explain it to customers and lower the number of customer complaints. This will also lead to lower requirement for AUC involvement.

It is the belief of the Working Group that common principles across TFOs, DFOs, and the AESO are beneficial to improving the Customer Contribution Policy and the Interconnection Process. The Working Group identifies that the “80/20 rule” is not a principle; it is simply one way of measuring, monitoring, or assessing if a particular contribution policy meets other principles of reasonableness, fairness, or intergenerational equity. The guiding principles are intended to identify that the current contribution policy does not establish an interconnection solution; it only established who pays for the solution when the payment is made. The Working Group believes that the adoption of the guiding principles will alleviate the concerns outlined.
Hi Leeann,

Here are my thoughts on the Consultation paper and how the AESO described this consultation and filing.

- The Commission defined a very narrow scope for this proceeding. Within this narrow scope it directed the AESO to investigate two substantive matters. The first being the level of contributions paid by AESO customers, the second the need for DFO’s to pay contributions.
- My understanding of the process that the AESO is proposing is that the Contribution policy proceeding will not change investment levels or rates. It will simply state policy information, that will form the basis of a new contribution policy after the AESO files its next general tariff application in 2013. The AESO is not proposing to broaden its efforts in regards to the Contribution policy for its next fling.
- From a customer perspective, this approach has several drawbacks:
  - The narrow scope of the proceeding eliminates several important matters, such as the potential use of POD specific rates or wider use of Rider I, and general questions/ changes to the AESO’s investment calculation methodology. It does not seem that the Commission explicitly intended this contribution policy proceeding to eliminate the need for further consideration of these other matters in the next GTA. Rather the narrow scope of the Contribution policy proceeding was required in order to proceed in a quick fashion, since investment levels are impacting customers and this matter should not wait until the next AESO GTA.
  - In re-reading the Commission information on the Contribution policy proceeding, I have the following assessments:
    - The Commission sees the need to expedite this proceeding to help deal with intergenerational equity issues. The Commission did not agree with the AESO recommendation to eliminate the contribution policy proceeding but was supportive of a relatively quick contribution policy proceeding. This seems to infer that a potential change in investment levels may arise from the Contribution policy proceeding – that is why it is needed quickly. If the Contribution policy proceeding was only dealing at a policy level, what is the urgency?
    - It seems that the Commission needs a quantitative assessment of contribution policy choices. It seems reasonable then, that any policy choices be placed within the context of specific investment levels – and that this be presented to the Commission. Excluding investment levels will not allow a quantitative assessment of policy decisions –and this would seem unacceptable.
    - From a practical perspective, the AESO’s early work shows that 100% of load customers in 2011 are paying a contribution. Even the smallest,
simplest connections – (from my customers) are now drawing substantial contributions. Costs for Transmission work continues to escalate and the methodology that underlies the investment function does not seem to produce high enough investment levels (as compared to the intent of the policy or in comparison to prior years investment levels). Since the AESO has over 250 projects in its connection queue (many of which are load customers) with many connecting prior to the implementation of the next AESO tariff, it seems prudent to use this opportunity to adjust investment levels (assuming that the teams investigation uncovers that investment levels are currently too low).

My recommendation would be:
-Use this opportunity to adjust investment levels (assuming this is justified from the working teams recommendations)
-Be explicit on out of scope items from the Contribution policy proceeding – but do not eliminate considering these items in the next AESO GTA. Potentially any specifics on a breakout of DFO rates/ investment levels could be handled in the next AESO GTA – along with other items like POD specific rates. This two step consultation/filing approach will minimize the Contribution policy filing so it can be more streamlined. A negotiated settlement in the contribution policy proceeding will be more likely if other contribution policy items are not eliminated from the next AESO GTA.

Regards,

Ed
Re: Transmission Contribution Policy Discussion Paper

1. On September 12, 2011, the Alberta Electric System Operator (AESO) held a consultation meeting with stakeholders to discuss the 2011 Transmission Contribution Policy Discussion Paper that was issued on August 23, 2011. EPCOR thanks the AESO for the ability to participate in the consultation meeting and offers the following comments regarding the Discussion Paper.

2. EPCOR generally agrees with all the “primary” principles listed in the discussion paper, and understands that these were referenced from established principles in past EUB and AUC decisions. With respect to primary principle (a), however, EPCOR would note that electric distribution system owners do not have the same level of control as industrial customers in the location, the size, and the timing of new PODs or expansion of existing PODs. Distribution system owners are obligated to provide reliable service to its customers regardless of any limits imposed by AESO’s contribution policy. As a result, the discussion paper’s primary principle (a), “A contribution policy should exert an economic discipline on siting decisions by sending price signals to a connecting customer” does not generally apply to distribution system owners.

3. EPCOR also notes in respect of primary principle (b) that achieving intergenerational equity through an appropriate balance between “averaged”
costs and participant-specific costs will be an increasingly difficult challenge for the contribution policy to achieve, particularly when it is likely that the economy will experience increasing inflation in the years to come.

4. EPCOR supports the formation of a Working Group to thoroughly investigate historical data of customer contributions in Alberta. EPCOR believes that more information is required to determine the underlying factors for projects requiring contributions, and the extent of those contributions. EPCOR also supports the Working Group to conduct a thorough investigation of contribution policies from other jurisdictions.

5. EPCOR understands that the size of the Working Group will be limited in size to one member from each stakeholder group, and that the frequency of the meetings will be every two weeks. As such, EPCOR would be available to participate in this Working Group, but believes that a TFO/DFO located within closer proximity to the meeting locations, the City of Calgary, would be more appropriate. EPCOR looks forward to reviewing the findings of the Working Group.

6. Please call me directly if you have any questions with respect to this submission.

Sincerely,

[Original signed by]

Don Gerke
Vice President, Regulatory Affairs
EPCOR Utilities Inc.
Telephone: (780) 412-7773
September 26, 2011

Ms. Lee Ann Kerr  
Alberta Electric System Operator  
2500, 33—5th Avenue SW,  
Calgary, Alberta  
T2P 0L4

Dear Ms. Kerr:

Re: 2011 Contribution Policy Proceeding – AltaLink Comments


AltaLink’s interest in the current AESO consultations and, ultimately, in the Alberta Utilities Commission (“AUC” or “Commission”) Electric Transmission Contribution Proceeding (the “Proceeding”), is as a major transmission owning utility in Alberta. AltaLink owns more than half of Alberta’s transmission grid and serves 85 per cent of its population.

General Comments

In its Decision 2010-606, at page 80, the AUC made the following comment about the purpose of a contribution policy (also quoted at page 4 of the Discussion Paper):

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.

AltaLink agrees with that broad intent. AltaLink also believes that the core elements of a “reasonable balance” are found in the existing AESO contribution policies, its suggested “primary principles”, and, in particular, the changes to those policies that have been made over the past several years.

However, AltaLink is concerned that the AESO’s contribution formula has produced some unintended consequences. Specifically, based on the data provided by the AESO in their presentation entitled “2011 Contribution Policy” dated September 12, 2011, the AESO anticipates that 100% of its connecting customers will have to make a contribution towards their costs of interconnection. This is a significant departure from the early
guiding principles regarding investment policy that reflected an “80/20” guideline based on postage stamp pricing. Under this earlier guideline, only 20% of connecting customers were expected to make a contribution. As a result of these unanticipated higher contribution levels, DFOs are now making higher contributions to TFOs and larger industrial customers are bearing more of the upfront costs related to their interconnections.

We understand that one of the reasons that contributions have increased over the past few years is a result of the fact that the AESO’s contribution formula is based on historical costs and is now lagging behind the real costs of interconnection faced by customers. Moreover, the current formula probably over-emphasizes the scale economies of connection projects (established principle (h), page 4 of the Discussion Paper), which tends to make the contributions from larger customers even higher. At the same time, we believe that the current approach largely ignores the incremental revenues that these larger customers contribute to the system. This latter point may, again, reflect too strict a concern about established principle (d) (page 3 of the Discussion Paper).

To address these issues, AltaLink is suggesting that the working group consider adjusting the contribution formula to achieve fair results for all market participants. The elements of the amendments that AltaLink will be suggesting are set out below in this correspondence.

*The Existing Approach*

As both prior Commission Decisions and the AESO Primary Principles make clear, the objective of any contribution policy is to allocate fairly and efficiently the incremental costs triggered by a new customer. In part, this speaks to the target allocation between the new customer and existing customers:

If the new customer’s share of interconnection cost is prohibitively high and it forgoes the new service, existing customers lose an opportunity to drive down their costs by sharing their existing fixed costs over more load. In this sense, some efficiency of scope and scale is lost as the system is prevented from taking advantage of this opportunity.

Conversely, if the new customer’s share of interconnection costs are so low that it makes inefficient siting and expansion decisions, this can lead to increasing rates for existing customers.

There is no single right answer to what is “too much” for either the new or existing customers to pay for interconnection. Theoretically, existing customers have a discount rate that defines how much they would trade off an expected amount of future incremental revenues for incremental costs today. Some jurisdictions incorporate this
concept into their extension policies by using a revenue test to ensure that existing customers are no worse off as a result of the new customer having joined the system. Established Principle (d), as noted above, favours a target customer contribution level where new-customers contribute an amount that is greater than the level that holds existing customers harmless.

Whatever target is chosen, however, there are two important considerations that arise from it:

1. The farther the target varies from the “holding existing ratepayers harmless” principle, the more risk there is that efficiency problems will arise (that is, the price signal sent to new customers will lead to either too much investment or not enough investment); and

2. The mechanism that is used to “aim” at the target matters a great deal.

This second point raises an important discussion about the differences between the investment allowance approach used by the AESO today and a revenue test approach. The AESO’s investment allowance approach is based on costs that vary by size and has been designed to ensure a targeted level of contribution that has been embodied in what we refer to as the “80/20” guideline. This guideline is based on typical interconnections and historical cost data. As such, even when the costs of interconnection are accurately reflected, the formula implicitly assumes that it still makes sense to design the target contribution level around typical sized customers and that the variations in costs among different customer sizes and types exactly matches the slope implied in the contribution policy. AltaLink recognizes that EUB Decision 2007-106 states that the 80/20 rule is not be relied on when amending the maximum investment policy. However, AltaLink believes that the current 0/100 result (ie: all customers having to make contributions) is woefully inconsistent with the original intent of the investment policy.

AltaLink believes that the AESO should analyze recent interconnection costs to either adjust the current contribution formula or validate that it accurately tracks current real costs of interconnection. AltaLink is aware of some cases where the costs of interconnection have substantially exceeded what the contribution formula would predict. For instance, we have recently seen a series of large projects interconnecting to 240kV systems that are not “typical” as is contemplated in the current investment formula. In addition, there are many more projects in the oil-sands development areas with abnormally high interconnection costs due to terrain and distance from the grid.

If the AESO and/or working groups find that the formula is not tracking costs accurately, then there are at least two implications for the interconnection policy:
1. Contrary to Primary Principle (a), many customers are not paying the targeted amount of contribution, which suggests a serious efficiency concern with the existing approach;

2. Contrary to Primary Principle (b), customers of different sizes are making materially different net contributions to the system (their incremental revenues less their costs) which raises serious fairness concerns.

*Suggested Amendments*

AltaLink believes that addressing the concerns set out above will require some modification to the existing investment allowance approach in the current tariff. Two primary approaches are possible:

1. The pure investment allowance approach can be preserved, but modified to more accurately track costs; or

2. The current investment allowance approach could be augmented by a “safety valve” revenue test, which deals with customers whose contributions are too large as a share of the total cost of the interconnection or whose net contribution to the system results in an unfair allocation between the new customer and existing customers.

AltaLink believes that the heterogeneity of customers connecting to the system may make it difficult to effectively achieve the result implied by the Primary Principles using a pure investment allowance approach, even if that formula were shown to track costs for typical customers. Simply, the variance across customer interconnection circumstance is larger than can be accommodated by a pure investment allowance approach while remaining acceptably close to the target result for typical customers.

As a result, AltaLink favours using the second approach – that is, supplementing the investment allowance formula with a revenue test to bring outlying customers back into a range of reasonableness relative to the target contribution. Customers could choose the greater allowance produced from the existing (or updated) allowance produced from the cost based formula or the revenue test.

The concept behind the revenue test is that it brings another important piece of information into the interconnection cost formula. That piece of information is how much incremental revenue a new customer would contribute to AESO fixed costs over the contract length, or a fraction thereof. For example, a new load taking service on Demand Transmission Service (DTS) with a 70% load factor begins to make substantial contributions to fixed costs immediately upon taking service and the contribution grows over time. To see how these revenue contributions compare with the AESO’s maximum investment cost contributions, Figure 1, below, plots the AESO’s maximum investment
allowance by size of customer and contribution policy (historical and current) along with a maximum investment allowance defined by a revenue test. The revenue test reflects a present value of revenues contributed by a new 70\% load factor customer over a five year period using a 7\% discount rate.

The results from Figure 1 confirm that the AESO’s maximum contribution has increased over time, though potentially not at the same rate as connection cost increases, as suggested by recent examples of customer contributions described above. Also, the revenue test allowance example we describe above closely tracks the maximum investment allowances provided in the AESO’s past three customer contribution policies up to customer sizes around 20 MW, and substantially exceeds those levels beyond 20 MW. This analysis confirms our previous statement above that a simple five year revenue test may act as a safety valve by allowing larger customers to contribute less to interconnection costs than they would under current and previous contribution policies, while holding existing transmission ratepayers harmless. Existing transmission ratepayers may even be better off to the extent that the length of the revenues considered in the revenue test is less than the interconnecting customer’s typical contract length. In Figure 1 the contract length is 20 years, while the revenue test only includes the first five years of the contract.

![Figure 1: Maximum Investment Allowances Under AESO Contribution Policies and Five Year Revenue Test](image)

To see more clearly how a revenue test that decreases customer contributions might actually benefit existing customers, we look at the impact of a new 20-year 100MW DTS contract. In this example, the five-year revenue test could result in roughly twice the interconnection investment credit to the new customer ($35 million under the revenue test vs. $17 million under the 2011 contribution formula) as shown in Figure 1.
Figure 2, below, shows the potential impact of the different maximum investment policies on other non-participating AESO customers. The black double line shows the cumulative cash flow to the AESO’s customers associated with a 100MW new customer connecting to the system under the described revenue test. Initially the customer would impose a $35 million cost on AESO customers in year 0 due to the use of the proposed revenue-based investment credit. Each year the customer continues to operate, however, the customer contributes about $8 million in incremental AESO revenues. The cumulative revenue chart illustrates this as the black double line rises each year. Even assuming no increase in AESO rates, the chart shows that the AESO collects its full initial investment by year five. That indicates that other AESO customers would be better off after just five years, and after twenty years, the revenue benefit to other AESO customers would total $123 million in nominal dollars. If AESO rates were modeled as increasing, the cumulative revenues would rise even faster, and other AESO customers would expect to see even more benefits over the life of the contract.

To be sure, if the customer would have taken service without the increased interconnection credit, the cumulative revenues under the 2011 Tariff would be even higher for that same customer. The impact on the AESO’s customers if the customer would have taken service with only a $17 million dollar interconnection credit is shown on the figure as the dotted line. Because of the lower investment credit, the cumulative net revenues to AESO using the 2011 Tariff would have been $18 million higher in each year. However, had the customer forgone the interconnection entirely and not located in AESO’s territory because of the lower investment credit, the net revenues to the AESO’s customers would have been zero, as shown by the red line with the diamond markers.

![Figure 2: Impact of different maximum investment policies on AESO customers](image-url)
AltaLink looks forward to its participation in this AESO Contribution Policy process. Should you have any questions regarding this matter please contact the undersigned at (403) 267-3450.

Sincerely,

Zora Lazic
Senior Vice President, Regulatory & Client Services