October 19th, 2011

2011 Contribution Policy Working Group
October 17th 2011 Meeting
Meeting Notes and Summary

Attendees

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Stakeholder Segment</th>
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<tbody>
<tr>
<td>Vittoria Bellissimo</td>
<td>IPCAA</td>
<td>Industrial</td>
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<tr>
<td>Tony Demassi / David Morris</td>
<td>AltaLink Management Ltd.</td>
<td>TFO</td>
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<tr>
<td>Ed de Palezieux</td>
<td>Enbridge</td>
<td>Industrial</td>
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<tr>
<td>Miles Stroh</td>
<td>FortisAlberta</td>
<td>DFO (non-affiliated)</td>
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<td>Mike Windsor</td>
<td>ENMAX</td>
<td>TFO / DFO</td>
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<td>Wayne Taylor</td>
<td>UCA</td>
<td>Small customers</td>
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<tr>
<td>Ken Koenig</td>
<td>ATCO Electric</td>
<td>TFO / DFO</td>
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<td>John Martin</td>
<td>AESO</td>
<td>ISO</td>
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<td>Lee Ann Kerr</td>
<td>AESO</td>
<td>ISO</td>
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Meeting Summary

Mechanisms
The working group engaged in a discussion on the mechanisms used to determine the balance between averaged costs and participant specific costs. These mechanisms included:

1) The “80/20 Rule” – 80% of all connection projects pay a contribution;
2) The “multiplier” – a multiplier is applied to the cost function to determine investment levels;
3) A revenue “test” – determining the incremental revenues an MP would contribute to AESO fixed costs;
4) Line length – MP pays for costs over and above a prescribed line length; and
5) A % of costs covered for every MP – each MP gets % of costs covered, every MP pays a contribution.

The AESO notes that two additional mechanisms were discussed, and adds them to capture the comments made by the members:
6) Zero contribution – the MP does not pay a contribution for connection facilities; and
7) Zero investment – the MP pays 100% of connection costs.

Goals
The members identified the following as the goals to be achieved for the working group:

1) Harmonization of contribution principles for transmission and distribution connection projects;
2) Examination of whether a contribution should be required between two regulated utilities; and
3) Achieving broad stakeholder support for the investment policy.

Criteria
The working group members established the criteria against which the seven mechanisms can be assessed. As part of an exercise to identify the criteria underlying established contribution policy principles, the following criteria were identified:

1) Based on local costs;
2) Sends economic price signals;
3) Maintains intergenerational equity;
4) Is robust and sustainable over time;
5) Aligns rates and investment structure;
6) Provides equitable treatment of all MPUs (DFOs, industrials, section 101s);
7) Ensures utilities receive equitable compensation; and
8) Is simple, consistent and transparent.

Established Principles
The following established principles from recent contribution policy proceedings were identified, and are listed here for reference:

AESO 1 - 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.

AESO 2 - 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.

AESO 3 - 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.

AESO 4 - 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.

AESO 5 - 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.

AESO 6 - Connection facility service characteristics and standards of functionality may change over time.

AESO 7 - Cost, not revenue, is the appropriate starting point for establishing the contribution policy.

AESO 8 - 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.

AESO 9 - 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.
AEOS 10 - 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.

AEOS 11 - Electric distribution system owners and direct-connected market participants should be treated comparably under the contribution policy in the AESO’s tariff.

AEOS 12 - The contribution policy needs to consider minimizing intergenerational inequity.

AEOS 13 - 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.

AltaLink 1 - The Customer Contribution Policy needs to consider economic signals to customers to encourage the best long term economic solution.

AltaLink 2 - The Customer Contribution Policy needs to consider the best long term economic and technical solution to meet standard customer and system requirements.

AltaLink 3 - The Customer Contribution Policy needs to consider that technical interconnection solutions and current interconnection costs drive the investment levels, not vice versa.

AltaLink 4 - The Customer Contribution Policy needs to consider current utility standards of service, and that standards may change over time.

AltaLink 5 - The Customer Contribution Policy needs to consider minimizing intergenerational inequity.

AltaLink 6 - The Customer Contribution Policy needs to consider harmonization among utilities (including the AESO) to ensure a consistent approach and treatment for all customers.

AltaLink 7 - The Customer Contribution Policy needs to consider incremental revenue from interconnection of new customers compared to the cost to serve them.

AltaLink 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.

AltaLink 9 - The Customer Contribution Policy needs to consider that the methodology should be simple to administer and applied in a consistent and transparent manner.

Fortis 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.

Fortis 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.

Fortis 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.

Fortis 4 - The current cost to connect new customers is the appropriate starting point for establishing MILs.

Fortis 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.
Fortis 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.

Fortis 7 - 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.

Fortis 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.

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

Fortis 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.

The working group members assigned the established principles to the criteria. The following table identifies the criteria and the associated principles:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Principles</th>
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<tbody>
<tr>
<td>Based on local costs</td>
<td>AESO 1, AESO 5, AESO 7, Fortis 4</td>
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<tr>
<td>Sends economic price signals</td>
<td>AESO 2, AESO 3, AESO 8, AESO 9, AltaLink 1,</td>
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<td></td>
<td>AltaLink 2, Fortis 2</td>
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<tr>
<td>Maintains intergenerational equity</td>
<td>AESO 4, AESO 12, AltaLink 5, AltaLink 7, Fortis 1,</td>
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<td></td>
<td>Fortis 3, Fortis 6, Fortis 7</td>
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<tr>
<td>Is robust and sustainable over time</td>
<td>AESO 6, AltaLink 3, AltaLink 4, Fortis 5</td>
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<tr>
<td>Aligns rates and investment structure</td>
<td>AESO 10, Fortis 8</td>
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<tr>
<td>Provides equitable treatment of all MPs (DFOs,</td>
<td>AESO 11, AltaLink 6, Fortis 10</td>
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<td>industrials, section 101s)</td>
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<tr>
<td>Ensures utilities receive equitable compensation</td>
<td>AESO 13, AltaLink 8</td>
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<tr>
<td>Is simple, consistent and transparent</td>
<td>AltaLink 9, Fortis 9</td>
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**Action Items**

The following action items were noted:

1) Miles, Mike and Ken to determine (based on the availability of data) the “multiplier” applied to average costs to come up with investment levels for DFOs. The multiplier for the DFO would be the MIL divided by the average project cost.

2) All working group members to consider if there are any other mechanisms that should be included in the list.

3) The AESO committed to have historical contribution data available in advance of the next working group meeting.

4) The AESO committed to providing current contribution data, as provided for in Appendix F of the AESO 2010 Tariff Application (attached), and the working group members will provide suggestions for additional information/fields to be included in the new database, to enable the AESO in compiling the data.
Next Steps
The next meeting has been rescheduled to Thursday, November 17\textsuperscript{th}, 9:00 am, AESO offices, Room 2538. At the next meeting, the working group members will review the data. In addition, the AESO proposes the following agenda items:

1) Possible application of mechanisms to the contribution data;
2) Evaluation of whether the mechanisms applied to the data satisfies the criteria; and
3) Discussion of outliers.