February 9th 2012

Contribution Policy Working Group
February 2nd 2012, Meeting #5
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>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

Action Items from previous meeting

1) For the 40 8 outliers, the TFOs will analyze the specific project data to determine the underlying causes for the costs

Escalation factors were updated and projected to 2013, and cost and DTS levels were updated for 11 projects, resulting in revisions to the values of several of the cost functions previously developed. Whereas there were previously 10 outliers identified (in histogram labeled "escalated cost as percentage of escalated cost function" from the average cost function of all Greenfield projects), the new average cost function identified 8 outliers (three previously identified outliers dropped out of the set, and one new outlier was added).

The AESO notes that geographic location and bulk system generally appear to be contributing factors in the outlier set. However, each time the data is updated, the values for the cost function will change, affecting which projects end up in the outlier “bins”. The AESO therefore suggests that further investigation of the outliers will not offer any new information at this time.

Further Analysis

The working group members reviewed various line functions for several data sets. The AESO notes that the highest correlation value occurs with the power curve, using the data set of 68 Greenfield projects plus 18 older projects (originating from the TCCS). The AESO notes that the addition of these projects
was approved as part of the 2007 GTA. In EUB Decision 2007-106 it was noted that “these additional data points are the best available PD cost data for projects in these contract capacity ranges. Moreover, since the Board is strongly persuaded that the relationship between POD costs and contract capacity will exhibit economies of scale, the Board considers that a much more significant distortion of the POD cost function would occur if these data points were to be excluded than any potential for distortion that may be caused by incompatibilities with the greenfield data.” (p. 46).

The group reviewed information on multipliers, and the AESO introduced a multiplier calculator, which demonstrated the investment coverage for the most recent 30 projects based on different multipliers.

Contribution Policy Principles

The group will review and finalize the proposed contribution policy principles for the next meeting. Working group member comments and suggestions have been incorporated below.

Primary Principles

1. Provides Effective Price Signals — The contribution policy must send price signals that influence market participants to select the best long-term economic and technical alternatives for connection projects while considering good electric industry practice. The price signals should ensure that market participants consider the costs of connections when requesting system access service. An effective price signal will result in a market participant requesting:
   - only those transmission facilities needed to meet the individual service requirements of the market participant, and
   - transmission facilities that optimize overall costs, including the impact of siting the market participant’s own plant and equipment as well as other factors.

   The contribution policy should not provide excessive investment or other incentives that would encourage market participants to request facilities beyond those needed to meet their individual service requirements.

2. Maintains Intergenerational Equity — The contribution policy must balance what a new market participant pays as a contribution compared to what all market participants pay through related rate components. In general and consistent with historical practice, new market participants should receive a fair and sufficient level of investment such that most do not pay a contribution or, alternatively, that most contributions represent a small proportion of connection project costs. As well, a new service should not unduly burden existing services and should not place undue upward pressure on rates.

Secondary Principles

3. Is Based on Local Costs — The contribution policy should directly relate to the current local connection costs of system access service and should exclude system costs. The connection costs should reflect good electric industry practice for transmission facilities to meet the individual service requirements of the market participant.

4. Is Robust and Sustainable — The contribution policy must accommodate changes to the service characteristics, functionality, and standards that apply to system access service, as those characteristics, functionality, and standards change over time.

5. Is Based on Cost Causation — Investment levels should be determined on the same cost causation basis as are the related rate components, to the extent practical and considering the expected life of a service. Since investment is recovered through rates, basing both on cost causation will ensure
investment is appropriately recovered through rates over a broad range of market participant connections.

6. **Treats All Load Market Participants Equitably** — The contribution policy should apply equally to owners of distribution systems, owners of industrial systems, and direct-connected market participants who receive section 101 releases. In as much as all load market participants pay the same investment-related rate components, all should be subject to the same contribution policy.

7. **Compensates Utilities Equitably** — The contribution policy should provide a reasonable opportunity for transmission facility owners to invest in and be compensated for the facilities they own, operate, and maintain to provide system access service.

8. **Is Simple, Consistent, and Transparent** — The contribution policy must be simple to administer and update. It must also be able to be applied consistently and transparently.

**Action Items**

1) Ken and Mike to provide information on inflation indices used by ATCO and ENMAX (received)
2) Determine current DTS levels for the “18 old projects”
3) Do analysis on projects that are at PPS level.

**Next Steps**

The next meeting is scheduled for Monday March 5th 9:00 am – 12:00 noon, AESO offices, Room 2506. The following agenda items are proposed:

1) Discussion of comments/issued raised at the March 1st stakeholder meeting;
2) Consideration of differences between upgrade and Greenfield projects;
3) Finalization of the principles;
4) Discuss whether a contribution should be required between utilities; and
5) Finalization of mechanism and investment level proposals.