AE-AESO-001(a-c)

Reference
Exhibit 0002.00, Appendix A, Clause 1(5)(a)

Preamble
“If significant and substantiated doubt exists about the viability of the market participant’s project or the financial stability of the market participant”

Request
(a) Please describe in detail how and what factors the AESO will use to assess and determine “if significant and substantial doubt exists about the viability of the market participant’s project” as well as “the financial stability of the market participant”.

(b) Please confirm the AESO has a process established to periodically assess both project viability as well as financial stability of the market participant. If confirmed, please describe this process, including how frequently a periodic assessment occurs.

(c) Please describe the process that the AESO has established to monitor both project viability as well as financial stability of the market participant on an ongoing basis that will be used to trigger an assessment if a materially negative change occurs that impacts the project or the participant.

Response
(a-b) Please refer to parts (a) and (b) of information response AML-AESO-003.

(c) A market participant is required to report any material adverse change in its financial position within two business days of such event, in accordance with subsection 7(2) of section 5 and with subsection 2(7) of section 13 of the ISO tariff. Similar requirements are included in subsection 10 of section 103.3 of the ISO rules, Financial Security Requirements.

After receiving such notice, the AESO will determine the impact of the material adverse change and whether replacement or additional financial security is required for Rider I.

The AESO would expect to discover any unreported material adverse change through the processes described in parts (a) and (b) of information response AML-AESO-003. Withholding of information about a material adverse change would be considered an event of noncompliance under section 2 of the ISO tariff.
AE-AESO-002

Reference
Exhibit 0002.00, Appendix A, Clause 1(5)(d) and 4(4)(b)

Preamble
1(5)(d) “repeated conversions of a construction contribution to Rider I monthly charges after prior early terminations of such charges by the market participant”

4(4)(b) “repeated early terminations requested by the market participant for prior conversions of construction contributions to Rider I monthly charges;”

Request
Please describe how many early terminations of Rider I would qualify as “repeated conversions”. Would one early termination qualify? If not, please describe why.

Response
The AESO has not established a specific number or frequency of early terminations that would be considered “repeated conversions”. However, any request for a conversion to Rider I monthly charges after a prior early termination will be individually assessed to consider the reasons for the request and for the prior early termination.

In some circumstances, the AESO expects that one early termination could provide a sufficient basis for denial of a subsequent request for conversion to Rider I monthly charges. In other circumstances, such as a change in ownership of a company, a repeated conversion or repeated termination may be reasonable.

After gaining sufficient experience with conversions to Rider I monthly charges and subsequent early terminations, the AESO may establish a specific number or frequency beyond which additional conversion or termination requests would be denied.
AE-AESO-003

Reference
Exhibit 0002.00, Appendix A, Clause 1(5)(e) and 4(4)(c)

Preamble
1(5)(e) “reasonable expectation of harm that may occur to the owner of transmission facilities due to instability affecting planning and decision-making regarding financing arrangements or during periods of capital constraint;”

4(4)(c) “reasonable expectation of harm that may occur to the owner of transmission facilities due to instability affecting planning and decision-making regarding financing arrangements.”

Request
Please describe in more detail the factors the AESO will take into consideration in the assessment of “harm that may occur to the owner of transmission facilities”.

Response
Please refer to information response AML-AESO-005(a).
AESO Responses to Information Requests
AESO 2012 Rider I
Application No. 1608602, Proceeding ID No. 1982

AE-AESO-004(a-c)

Reference
Exhibit 0002.00, Appendix A, Clause 3(6)

Preamble
“The ISO may use any unsecured credit it establishes for the market participant to reduce the amount of security the market participant must provide to the ISO for Rider I, up to the limit of such unsecured credit not utilized to reduce other security the ISO or the owner of the transmission facilities requires.”

Request
(a) Please describe in detail what form(s) of unsecured credit would be acceptable.

(b) Please describe the method of allocating unsecured credit. Is it possible for the ISO to allocate 100% of the unsecured credit to Rider I?

(c) Please confirm that the TFO has no input in establishing the security requirements.

Response
(a) The processes for establishing unsecured credit are described in subsections 4 through 7 of section 103.3 of the ISO rules, Financial Security Requirements. Unsecured credit is granted by the AESO to a market participant up to a maximum limit for which other forms of financial security are not required to be provided. Different processes are used for determining the unsecured credit limits for rated entities, for non-rated entities, and for parent, subsidiary, and affiliated companies.

For example, the process for determining the unsecured credit limit for a rated entity includes the following steps described in subsection 5 of section 103.3 of the ISO rules.

5(1) The unsecured credit limit referred to in subsection 4 may be granted based on the long-term unsecured credit rating of the market participant or its guarantor from an acceptable credit rating agency determined in accordance with subsection 5(2).

(2) The credit rating agencies acceptable to the ISO are the Dominion Bond Rating Service, Standard & Poor’s, Moody’s Investor Service, and any other credit rating agency which a market participant tenders to the ISO for the market participant or its guarantor and that is acceptable to the ISO in its sole discretion.

(3) If more than one (1) acceptable credit rating agency provides a credit rating for a market participant or its guarantor, then the ISO must establish the unsecured credit limit for the market participant based on the lowest credit rating the agencies provide.

(b) The unsecured credit would be allocated to all financial obligations of the market participant, including monthly energy market charges, monthly system access charges, and connection
project obligations. The AESO generally considers these obligations collectively, and would combine them with any Rider I obligations to determine what additional security would be required. The energy market and system access obligations generally fluctuate more than the connection project and Rider I obligations, and additional security would be requested for the collective amount of the obligations on an ongoing basis.

Yes, it would be possible for the AESO to allocate 100% of the unsecured credit limit to Rider I obligations.

(c) Please refer to information response AML-AESO-006(a-b).
AE-AESO-005(a-b)

Reference
Exhibit 0002.00, Appendix A, Clause 4(2)

Preamble
“A market participant may request early termination of Rider I monthly charges:
(a) upon at least ninety (90) days written notice;
(b) to be effective no earlier than twelve (12) months after the start of the first settlement period in which the ISO charges Rider I to the market participant; and
(c) upon payment of any remaining construction contribution not recovered through Rider I monthly charges, as the ISO determines.”

Request
(a) The early termination of Rider I may result in the TFO being inappropriately financed, having both too much debt and equity in its capital structure. To remedy this, the TFO may have to terminate, if possible, some of its committed long-term debt arrangements early, which may incur certain fees and penalties. Please describe how the AESO intends on handling this scenario and if such fees and penalties are to be recovered from the Rider I customer that has elected to terminate early.
(b) Please describe the process and timing for notifying the TFO of a market participant’s request for early termination of Rider I.

Response
(a) Please refer to parts (a-b) and (c) of information response AML-AESO-007.
(b) The AESO expects that the timeframe and process for early termination of Rider I monthly charges would be similar to the timeframe and process for rescinding a conversion to Rider I monthly charges. Please refer to information response AML-AESO-002 for information on that timeframe and process.
AE-AESO-006

Reference
Exhibit 0002.00, Appendix A, Clause 4(5)(b)

Preamble
"return any security held for Rider I to the market participant promptly after the end of the last settlement period in which the ISO charges Rider I."

Request
Please confirm that the return of any security held for Rider I only occurs after the TFO has received cash settlement in full for all related costs.

Response
Confirmed. Please refer to information response AML-AESO-008(b) for additional information.
AE-AESO-007(a-d)

Reference
Exhibit 0002.00, Appendix A

Preamble

ISO Rules, Part 100, General, Division 103 Administration, Section 103.3, Financial Security Requirements

Unsecured Credit Limit for Non Rated Entities

6(1) If a market participant or its guarantor does not have a credit rating from an acceptable credit rating agency as referenced under subsection 5(2), then the market participant may request that the ISO grant to the market participant an unsecured credit limit based on a proxy credit rating of the market participant or its guarantor.

(2) The ISO may at its sole discretion accept or reject a request made under subsection 6(1) to grant a market participant an unsecured credit limit based on a proxy credit rating.

Request

(a) Please confirm if Rider I customers may request unsecured credit limits under this provision.
(b) Please describe in detail the factors and process of analysis used to determine a proxy rating.
(c) Please describe the process to assess this proxy credit rating on an ongoing basis.
(d) Please advise if the ISO has received any requests for proxy credit ratings, and if the ISO has established any proxy credit ratings.

Response

(a) Confirmed. The use of unsecured credit to reduce Rider I security requirements is provided for in subsection 3(6) of proposed Rider I.
(b) Please refer to information response AML-AESO-011(a).
(c) The AESO reviews proxy credit ratings in accordance with subsections 6(7) and 6(8) of section 103.3 of the ISO rules, Financial Security Requirements, reproduced below:

(7) The ISO must review the proxy credit rating the ISO grants and the financial information of each non-rated market participant and its guarantor at least once per year.

(8) Upon completion of the yearly review referenced under subsection 6(7), the ISO must provide written notice to the market participant and its guarantor, as the case may be, of any changes in the assigned proxy credit rating, unsecured credit limit or financial security requirements.
The annual review would follow the same process as the initial review and assessment. In addition, the AESO reviews the quarterly financial statements of a market participant in accordance with subsection 6(3)(b) of section 103.3 of the ISO rules.

(d) Please refer to information response AML-AESO-011(b).
AE-AESO-008

Reference
Exhibit 0002.00, Appendix A

Preamble
ISO Rules, Part 100, General, Division 103 Administration,
Section 103.3, Financial Security Requirements
Unsecured Credit for Parent, Subsidiary and Affiliated Companies

7(1) A market participant who is a subsidiary or affiliate of a parent company with an unsecured
rating from a credit rating agency approved under subsection 5(2) may make an application to the ISO for
an unsecured credit limit under subsection 6.

(2) The ISO in accordance with subsection 6 may grant the market participant an unsecured credit
limit, based on the lower of the proxy credit rating for the market participant and that of its subsidiary or
affiliate parent company.

Request
Please confirm that the ISO will not grant unsecured credit limits to an affiliate or subsidiary to qualify for
Rider I based on the parent company’s credit rating or proxy rating, in the absence of an explicit
guarantee from the parent company. If not confirmed, please provide details of the AESO’s criteria for
granting unsecured credit limits.

Response
Confirmed. The AESO requires a written guarantee before granting an unsecured credit limit based on
the parent company’s credit rating or proxy rating.
AESO Responses to Information Requests  
AESO 2012 Rider I  
Application No. 1608602, Proceeding ID No. 1982

AE-AESO-009(a-d)

Reference
Exhibit 0002.00

Preamble
ISO Rules, Part 100, General, Division 103 Administration,  
Section 103.3, Financial Security Requirements
Acceptable Forms of Financial Security

8(1) Subject to subsection 8(2), the form of any financial security to be provided to the ISO under this section 103.3 must be a letter of credit, a cash collateral deposit or third party written guarantee.

(2) A market participant may request that the ISO approve of an alternative form of financial security to those specified under subsection 8(1), and the ISO may at its sole discretion accept or reject the alternative form of financial security.

(3) An approved letter of credit form must:
   (a) contain provisions to the effect that it is an unconditional and irrevocable standby letter of credit, payable on demand with the ISO as beneficiary; and
   (b) be issued from a Canadian chartered bank, or other acceptable and comparable financial institution, with at least an A minus rating from an acceptable credit rating agency referred to under subsection 5(2).

Request
(a) Please describe in detail what may constitute “an alternative form of financial security” that “the ISO may at its sole discretion accept…”

(b) Please provide the current credit ratings for Canadian chartered banks.

(c) Please describe the process the ISO has in place to demand a replacement letter of credit or other security if the viability of a particular financial institution comes into question, regardless of what its credit rating may be.

(d) Please describe the steps that occur if a letter of credit provider has a rating action that reduces its rating below a minimum threshold (lower than A minus based on the current ISO rules)

Response
(a) The AESO may accept as an alternative form of financial security an assignment of receivables agreement where the receivables of one market participant is assigned to pay the obligations of another market participant’s payment due to the AESO upon a default.

(b) The current credit ratings (as of September 17, 2012) for the Canadian Chartered Banks under which the AESO holds security are provided in the following table.
(c) The AESO relies on the lowest of the credit ratings that the bank may have from an AESO acceptable credit rating agency. The bank’s credit rating would only need to be downgraded below A minus by one of the rating agencies to no longer be acceptable to the AESO, in accordance with subsection 5(3) of section 103.3 of the ISO rules.

The AESO would not likely demand a replacement letter without a downgrade below A minus from one of the AESO acceptable rating agencies. It is unlikely that the Canadian chartered bank would not be downgraded by at least one of the rating agencies if the viability of the bank came into question. Once the bank was downgraded below A minus, the replacement security would be requested and required within 2 business days. However, the AESO would likely be communicating with the market participant in advance to inform them that a request for replacement security would be forthcoming and that they should be prepared to provide the replacement security.

(d) Please refer to parts (a) and (d) of information response AML-AESO-014.

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AESO Responses to Information Requests
AESO 2012 Rider I
Application No. 1608602, Proceeding ID No. 1982

AE-AESO-010(a-f)

Reference
Exhibit 0003.00, Appendix C-1

Preamble
ATCO Electric would like to explore the Excel worksheet example provided in Appendix C-1 with modified assumptions to further understand the impact on current and future rate payers of converting the customer contribution into Rider I payments.

Request
(a) Please update the calculation of Rider I impact Excel worksheet example with the assumption that the total project cost is $10 million and 100% of this cost is customer contribution. All other assumptions remain the same.

(b) Please confirm that the Net Present Value (NPV) of the Rider I payments by the customer over the assumed term of 20 years is $10 million. If not confirmed please provide the NPV value.

(c) Please confirm that the NPV of the revenue requirement associated with this asset collected by the TFO over the same term of 20 years is $8.56 million. If not confirmed please provide the NPV value.

(d) Please confirm that the remaining NPV is $1.44 million ($10 - $8.56). If not confirmed, please provide the remaining NPV value.

(e) Please confirm that remaining NPV calculated in (d) associated with this asset is collected by the TFO in the remaining 20 year life of the asset. If not confirm, please provide a discussion on the timing of the collection for this remaining NPV.

(f) Please confirm that this arrangement reduces AESO’s DTS rates during the term of Rider I by $1.44 million (the remaining NPV calculated in (d)), but increases rates during the remaining life of this asset after the Rider I term by the same amount ($1.44 million). If not confirmed, please explain in detail why not confirmed.

Response
(a) Please see Attachment AE-AESO-010 for the modified example.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed. The impact of Rider I on the timing of cost recovery is discussed in the AESO’s responses to directions in its application, in section 2.1, page 11, paragraphs 40-41. With Rider I,
the transmission facility owner receives the same revenue as if the project cost had been fully covered by investment: $8.56 million during the first 20 years and $1.44 million during the last 20 years (both amounts on a net present value basis).

Alternatively, if the project cost was fully paid through construction contribution and not financed through Rider I, the transmission facility owner would receive no capital-related revenue during the following 40 years, including no return on equity.
AE-AESO-011(a-d)

Reference
Exhibit 0003.00

Preamble
ISO Rider I payments to the TFO

Request
(a) If a market participant under Rider I defaults, and the ISO realizes on the financial security, please confirm that this is an early termination from the TFO's perspective.
(b) If the event described in (a) is confirmed as an early termination, what happens to the funds collected by the ISO via the financial security?
(c) If the event described in (a) is confirmed as an early termination and the funds realized on the financial security don’t cover the remaining Rider I amount, would the difference be charged to the TFO?
(d) If the event described in (a) is not confirmed as an early termination, please describe the process the AESO will use to deal with this event.

Response
(a) A default under Rider I would lead to the rescinding of a Rider I conversion under subsection 1(4)(b) of proposed Rider I. The AESO expects that a rescinding of Rider I would be similar to an early termination from the perspective of a transmission facility owner.
(b) The AESO would transfer the funds to the transmission facility owner, as the remaining construction contribution not recovered through Rider I monthly charges.
(c) In accordance with subsection 4(2)(c) of proposed Rider I, the AESO determines the remaining construction contribution not recovered through Rider I. The AESO expects the remaining construction contribution would be fully covered by the financial security held for Rider I.
(d) Please refer to part (a) above.
AE-AESO-012(a-b)

Reference
Exhibit 0002.00, Appendix A, Clause 1(2)

Preamble
ATCO Electric would like to understand AESO’s rationale for allowing 100% of the market participant’s contribution to Rider I payments irrespective of the duration of the remaining term compared to the total term of the market participant’s contractual arrangement with the AESO.

Request
(a) Please confirm that the market participant can convert up to 100% of the contribution paid to the TFOs into Rider I payments irrespective of the duration of the remaining term compared to the total term of the market participant’s contractual arrangement with the AESO.

(b) If confirmed, please provide rationale for allowing the conversion of 100% contributions as opposed to allowing only a portion of the contribution based on the ratio of the remaining term and the total term.

Response
(a-b) Not confirmed. For conversion of a construction contribution some time after the contribution was originally paid, the Rider I monthly charge would be based on the construction contribution prorated for the remaining duration of the investment term.

For example, for an investment term of 20 years and a conversion request in the 6th year after commercial operation of the connection project, the Rider I monthly charge would be calculated with “term” equal to 20 and “n” equal to 6 in subsection 2(2) of proposed Rider I. The contribution recovered in the 6th year would be 1/20th (not 1/15th) of the total construction contribution, and the debt and equity components would equal 3/4 of the components that would have been charged in the 1st year after commercial operation.
AE-AESO-013

Reference
Exhibit 0002.00

Preamble
ATCO Electric would like to obtain the AESO’s view on the possible uptake of Rider I

Request
Please provide the AESO’s estimate of the total contribution dollars ($), pertaining to ATCO Electric’s TFO, that may be converted to Rider I over the 2013 to 2014 period.

Response
The AESO has no information on which to base an estimate of the impact of market participants utilizing the AESO’s Rider I, when it is approved.

As the AESO explained in information response AUC.AESO-011(b) in its 2010 ISO Tariff Application:

*The AESO has no information on which to base an expectation of how much of this balance might actually be converted if Rider I is approved as filed. The AESO understands that market participants generally support the AESO’s proposed Rider I, but any who commented on whether they would convert existing contributions indicated it would depend on the final Rider I details that are approved as well as analysis of several factors, including financing costs applicable to the individual market participant and other opportunities for capital investment available to the market participant.*

The AESO considers that information response to remain applicable.