December 21, 2012

To: Stakeholders

Re: AESO Board Decision

Please find enclosed the AESO Board’s decision on the AESO's 2013 Business Plan and Budget Proposal, and forecasts for the 2013 Transmission Line Losses and Ancillary Services Costs.

I would like to thank Stakeholders for their participation in this year’s Budget Review Process and to those who appeared before the AESO Board.

Should you have any comments, please feel free to contact me at 403-585-3085 or Todd Fior at 403-539-2505.

Yours truly,

Sarah E. Raiss
Chair
AESO BOARD DECISION
2013-BRP-001

AESO 2013 Business Plan and Budget Proposal,
Forecasted 2013 Transmission Line Losses Costs
and Ancillary Services Costs

December 2012
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1. Introduction

The following information is intended to document the Alberta Electric System Operator (AESO) Board decision (Decision) on the AESO’s 2013 Business Plan and Budget Proposal (Proposal) which includes the AESO’s 2013 business initiatives, related budget and forecasted transmission line losses and ancillary services costs. This Decision should be read in conjunction with the Proposal, comments from stakeholders (Stakeholders) on the Proposal and AESO Management’s (Management) replies to those comments, all of which are available on the AESO’s website at www.aeso.ca.

The Transmission Regulation\(^1\) (T-Reg) includes provisions addressing the process for consultation and approval of the AESO budget (general and administrative costs, other industry and capital costs – collectively referred to as “Own Costs”), as well as transmission line losses and ancillary services costs. The T-Reg provides that the AESO must consult with Stakeholders on these proposed costs prior to the AESO Board’s review and approval. It also provides that Own Costs, once approved by the AESO Board, are considered by the Alberta Utilities Commission (AUC) as prudent unless an interested person satisfies the AUC that such costs are unreasonable. Transmission line losses costs and ancillary services costs, once approved by the Board, are deemed to be prudent by the AUC. Subsequent to the AESO Board’s Decision, a Stakeholder may dispute that Decision pursuant to the Dispute Resolution provisions of the ISO Rules.

The practice established by the AESO to conduct consultation on these costs is the Budget Review Process (BRP). The BRP is an open and transparent annual process which facilitates a detailed business initiatives and costs review with Stakeholders. Consistent with prior years, a recommendation on the AESO’s business initiatives, annual budgeted Own Costs, forecasted transmission line losses and ancillary services costs was prepared by Management and outlined in the Proposal and was provided to the AESO Board for review and approval, or to be amended and approved, as appropriate.

\(^1\) AR 86/2007
2. Budget Review Process

The Process

An overview of the BRP, terms of reference and calendar providing the BRP milestone activities leading up to this Decision can be found in Section 3 of the Proposal. A summary of the key BRP steps and dates are as follows:

<table>
<thead>
<tr>
<th>Key BRP Dates in 2012</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 7</td>
<td>Notice to Stakeholders – A notice was distributed to Stakeholders regarding the initiation of the 2013 BRP (i.e., Stakeholder consultation process), an overview of the process steps, terms of reference and proposed process calendar.</td>
</tr>
<tr>
<td>September 14</td>
<td>First Stakeholder meeting – Stakeholder meeting to discuss the AESO’s 2013 business initiatives.</td>
</tr>
<tr>
<td>October 3</td>
<td>First technical meeting – Stakeholder meeting to review the AESO’s 2013 forecasted transmission line loss costs and ancillary services costs.</td>
</tr>
<tr>
<td>October 22</td>
<td>Second technical meeting – Stakeholder meeting to review the AESO’s 2013 Own Costs budget (general &amp; administrative, interest, amortization, capital and other industry costs).</td>
</tr>
<tr>
<td>November 15</td>
<td>Stakeholder presentations to the AESO Board on the Proposal.</td>
</tr>
</tbody>
</table>

2013 BRP

The AESO Board continues to believe that the BRP, which includes multiple stages, regular opportunities for interaction with Stakeholders, the disclosure of Stakeholder and Management positions and comments, the opportunity for Stakeholders to meet with the AESO Board and the publishing of this Decision, meets the key requirements of the T-Reg.

As part of the 2013 BRP, three Stakeholders — Alberta Direct Connect Consumers Association (ADC), Industrial Power Consumers Association of Alberta (IPCAA) and the Independent Power Producers Society of Alberta (IPPSA) — provided the AESO Board with written submissions on the Proposal and met with the AESO Board on November 15, 2012 to clarify their submissions. Those Stakeholder submissions and other
Stakeholder comments relating to the AESO’s Proposal for 2013 have been considered in reaching this Decision. The written submissions received from Stakeholders during the BRP and Management’s replies to those comments have been published on the AESO’s website at www.aeso.ca.

AESO Board Key Findings

Throughout the year, the AESO Board has maintained thorough oversight of the BRP. The AESO Board has received regular status updates on the BRP, including Management discussions with Stakeholders, and has performed a detailed review of the Proposal with Management. In addition, it should be noted that Management provides regular ongoing updates to the AESO Board, through its Audit Committee, on the AESO’s current year actual financial results compared to the prior year’s budget.

The AESO Board believes that the 2013 BRP has achieved the objectives of the BRP and met the requirements of the T-Reg².

3. Strategic Plan and Business Initiatives

Strategic Plan

The business initiatives as set out in the Proposal are based on the AESO’s five-year Strategic Plan 2009-2014 (Strategic Plan). The Strategic Plan is reviewed annually against the AESO’s statutory obligations and current circumstances, and is amended as required.

The Strategic Plan identifies eight strategic objectives as its areas of focus. These objectives are designed to allow the AESO to address those areas which could affect development of the transmission system, performance of the competitive energy market and delivery of system and market access services. The strategic objectives are reviewed annually as part of the AESO’s strategic planning process. The AESO has, from time to time, amended its objectives on its own initiative or in response to Stakeholder feedback. The strategic objectives were provided to Stakeholders as part of the BRP and are documented in the Proposal (Section 4, page 2).

² Paragraph 3(1)(b)
**Business Initiatives**

The AESO’s 2013 business initiatives are set out in the Proposal (Section 4, pages 3-9) and provide Stakeholders with an understanding of the organization’s corporate direction for 2013 and beyond, as many of the AESO’s business initiatives are multi-year in nature. The business initiatives were discussed with Stakeholders as part of the BRP and it is the AESO Board’s understanding that there were no substantive concerns raised on the business initiatives being proposed by Management.

As outlined in the Proposal, the AESO will continue to focus on ongoing business initiatives such as development and implementation of the Competitive Process for transmission development, fulfilling the AESO’s requirements as a part of the Transmission Facilities Cost Monitoring Committee, customer service improvements including the connection process, demand response initiatives, wind integration initiatives, implementation of the Alberta Reliability Standards, continuous improvement of the AESO’s internal compliance programs as well as a continued focus on increased effectiveness and efficiency of operations in 2013. Management believes the proposed initiatives for 2013 as outlined in the Proposal meet the objectives of both the AESO and Stakeholders.

**AESO Board Key Findings**

The AESO Board has reviewed the Stakeholder submissions on the AESO’s proposed business initiatives, listened to Stakeholder clarifications of their submissions by way of presentations to the AESO Board and reviewed the associated replies from Management. The AESO Board finds that the business initiatives as outlined in the Proposal are comprehensive and necessary to achieve the organization’s objectives in 2013, particularly the continued focus on initiatives related to transmission costs monitoring, customer connection process, demand response and dispatch and settlement alignment which is part of the AESO’s market system replacement initiative.

The AESO Board, after consideration of the information presented to it, endorses the business initiatives for 2013 as outlined in the Proposal. The AESO Board also notes and endorses the action items agreed to by Management and the continuing offers to work with Stakeholders toward the practicable resolution of their concerns as outlined in Management’s responses to Stakeholder comments.
4. AESO 2013 Budgeted Own Costs and Forecasted Costs Summary

The AESO’s total 2013 operating costs are $1,617.4 million (2012 Budget - $1,689.6 million). These lower costs are primarily attributable to lower forecasted pool prices used for forecasting ancillary services and transmission line losses costs for 2013. The AESO’s budgeted general and administrative costs, interest, amortization costs and other industry costs are discussed in Section 5, the AESO’s 2013 capital budget in Section 6 and forecasted transmission line losses and ancillary services costs are discussed further in Section 7 of this Decision. The following table provides a summary of the aggregated costs identified in the Proposal.

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>2013 Costs Allocation</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($ millions)</td>
<td></td>
<td></td>
<td>2013</td>
<td>2012</td>
<td>Change</td>
</tr>
<tr>
<td></td>
<td>Transmission</td>
<td>Energy</td>
<td>Load</td>
<td>Budget</td>
<td>Budget</td>
<td></td>
</tr>
<tr>
<td>General and Administrative</td>
<td>72.7</td>
<td>24.0</td>
<td>1.6</td>
<td>98.3</td>
<td>93.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Interest</td>
<td>0.9</td>
<td>0.4</td>
<td>0.0</td>
<td>1.3</td>
<td>2.9</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Amortization</td>
<td>12.9</td>
<td>8.6</td>
<td>1.8</td>
<td>23.3</td>
<td>20.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Other Industry</td>
<td>16.8</td>
<td>7.3</td>
<td>-</td>
<td>24.1</td>
<td>24.2</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Wires <strong>4</strong></td>
<td>1,074.3</td>
<td>-</td>
<td>-</td>
<td>1,074.3</td>
<td>973.4</td>
<td>100.9</td>
</tr>
<tr>
<td>Ancillary Services <strong>5</strong></td>
<td>259.2</td>
<td>-</td>
<td>-</td>
<td>259.2</td>
<td>354.8</td>
<td>(95.6)</td>
</tr>
<tr>
<td>Transmission Line Losses <strong>5</strong></td>
<td>136.9</td>
<td>-</td>
<td>-</td>
<td>136.9</td>
<td>220.8</td>
<td>(83.9)</td>
</tr>
<tr>
<td><strong>Total Operating Costs</strong></td>
<td>1,573.7</td>
<td>40.3</td>
<td>3.4</td>
<td>1,617.4</td>
<td>1,689.6</td>
<td>(72.2)</td>
</tr>
<tr>
<td>Capital <strong>6</strong></td>
<td>27.0</td>
<td></td>
<td></td>
<td>27.0</td>
<td>29.0</td>
<td>(2.0)</td>
</tr>
<tr>
<td><strong>Total 2013 Budget</strong></td>
<td></td>
<td></td>
<td></td>
<td>1,644.4</td>
<td>1,718.6</td>
<td>(74.2)</td>
</tr>
</tbody>
</table>

Details provided on the following pages in the Proposal (Section 4: 1 page 17, 2 page 21, 3 page 16, 4 page 14, 5 page 15, 6 page 22).
5. General and Administrative, Interest, Amortization and Other Industry Costs Budgets

General and Administrative

As part of the AESO’s annual planning process, Management conducted an extensive review of the AESO’s proposed 2013 general and administrative costs. Based on this review, the AESO’s proposed 2013 general and administrative costs are $98.3 million which is $5.2 million (or 6 per cent) higher than the 2012 approved budget of $93.1 million.

Management has identified a need to increase the general and administrative budget in five areas. These areas represent either annual cost increases, such as annual staff cost adjustments, or new work for the AESO that cannot be accommodated within the existing budget. In addition, Management has informed the AESO Board that any significant postponement or deferral of initiatives, including those that are discretionary, would be of limited impact in offsetting the proposed budget increase.

An analysis of the proposed increases to the AESO’s 2013 general and administrative cost budget was provided to Stakeholders and the AESO Board by Management as part of the BRP and can be found in the Proposal (Section 4, pages 18-20). The proposed adjustments to the AESO’s general and administrative budget are as follows:

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
<th>Amount ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Staff Compensation</td>
<td>$2.5 increase</td>
</tr>
<tr>
<td>2.</td>
<td>Office Space</td>
<td>0.8 increase</td>
</tr>
<tr>
<td>3.</td>
<td>Competitive Process for transmission</td>
<td>0.6 increase</td>
</tr>
<tr>
<td>4.</td>
<td>Cost Monitoring</td>
<td>0.5 increase</td>
</tr>
<tr>
<td>5.</td>
<td>System Costs</td>
<td>0.8 increase</td>
</tr>
<tr>
<td></td>
<td>Proposed increase to 2013 general and administrative costs</td>
<td>$5.2 increase</td>
</tr>
</tbody>
</table>

Management has advised the AESO Board that it will manage the balance of the 2013 general and administrative cost budget within the budget amounts that were approved for 2012 by the AESO Board with the exception of those amounts identified in the above table. The AESO continues to focus on optimizing
the delivery of operations through effective management and prioritization and will continue to look for cost savings opportunities.

**Interest, Amortization, and Other Industry Costs**

The AESO Board’s understanding is that Management has provided Stakeholders with an analysis of the proposed adjustments to the interest, amortization and other industry costs budgets as part of the BRP. This information is also outlined in the Proposal (Section 4, pages 16 and 21).

A summary of the proposed changes are as follows:

- Decrease in interest costs of $1.6 million due to a decrease in forecasted bank debt being held by the AESO in 2013 versus 2012.
- Increase in amortization costs of $2.9 million based on the amortization of AESO’s capital assets.
- Decrease in other industry costs of $0.1 million due to a reduction in the forecasted number of regulatory proceedings requiring AESO participation in 2013.

**AESO Board Key Findings**

The AESO Board has reviewed Management’s Proposal and Stakeholder comments on the proposed general and administrative, interest, amortization and other industry costs budgets for 2013.

Specifically, the AESO Board has reviewed the comments by Stakeholders and clarifications concerning the overall costs of the Competitive Process. The Competitive Process is intended to be a generic process that can be utilized for additional transmission projects in the future and as such, future benefits of the generic process will also be recognized. The costs of running the Competitive Process including the expenses associated with the retention of various external advisors are similar to those associated with Alberta’s P3 process. As such, the AESO Board disagrees with the comments by those Stakeholders who consider the costs excessive and finds these costs to be reasonable.

The AESO Board also notes ADC’s and IPCAA’s comments supporting additional Cost Monitoring resources and is positively disposed to changes in costs relative to the AESO’s role, if necessary. The AESO Board accepts Management’s proposal to increase the Cost Monitoring staff resource complement to four (one Director and three staff) and $0.5 million in contractor resources for annual costs of approximately $1.1 million. If additional resources are required by the AESO to fulfill its role as 2013 progresses, the AESO Board will support Management’s request for additional resources based on a
successful review and consultation, if determined necessary, with Stakeholders as in accordance with past practice.

In general, the AESO Board finds a $5.2 million (6 per cent) increase in general and administrative costs to be significant but not unreasonable given the AESO’s anticipated progress on and completion of business initiatives in 2013. The AESO Board accepts Management’s analysis of the general and administrative budget increases provided in the Proposal and approves the AESO’s 2013 general and administrative costs ($98.3 million), interest ($1.3 million), amortization ($23.3 million) and other industry costs ($24.1 million) as proposed.

6. Capital Budget

The AESO Board, as indicated in previous decisions, continues to believe that the AESO’s IT systems and related infrastructure represent a central underpinning of the AESO’s business, including maintaining the efficacy of the functioning of the market and the interconnected electric system.

The AESO budgets its capital costs on a discrete annual basis where each budget year is reviewed independently as to the expenditures to be incurred in the budget year. The AESO takes into consideration those capital projects which are already in progress and those which will be initiated within the year to determine the budgeted expenditure for the upcoming year. The Proposal contains a summary of the AESO’s 2013 proposed capital projects and the related expenditures for 2013. For 2013, the Proposal includes a proposed capital budget in the amount of $27.0 million (2012 Budget - $29.0 million).

The AESO has adopted a portfolio management process and the AESO Board reviews the portfolio against the plan quarterly. Any material changes to the plan are reported to Stakeholders as required.

AESO Board Key Findings

The AESO Board approves the capital project cost budget of $27.0 million for 2013. The AESO Board continues to support the AESO’s portfolio management process. Continued reporting on the status of capital projects is expected to provide the AESO Board and Stakeholders with ongoing transparency of the AESO’s management of capital expenditures.
7. Transmission Line Losses Costs and Ancillary Services Costs

The AESO’s 2013 transmission line losses costs are forecasted at $136.9 million, and the ancillary services costs are forecasted at $259.2 million. The forecasts are based upon volume and market-based commodity pricing forecasts determined by the AESO. Both of these items are detailed in the Proposal (Section 4, page 15).

The 2013 transmission line losses costs are forecasted to decrease by $83.9 million from the $220.8 million forecast for 2012. This decrease is due to a combination of a lower pool price forecast for 2013 ($60 per megawatt hour) compared to the 2012 forecast and a lower line losses volume forecast for 2013. Ancillary services costs are forecast to decrease by $95.6 million from the $354.8 million forecast for 2012. The decrease in ancillary services costs is due to the lower pool price forecast for 2013 and lower expected pool price volatility (i.e. lower frequency and duration of peak pool prices) in 2013. Operating reserve volumes are not forecasted to change materially year-over-year. Further discussion can be found in the Proposal, (Section 4, page 15).

AESSO Board Key Findings

The AESO Board understands it is inherently difficult to forecast these items accurately as these costs are a function of forecasts of volume and market-based commodity pricing. Volume forecasts tend to be reasonably accurate as volumes (generation and load) can be projected with a higher degree of certainty over time, generally reflecting historical trends. However, commodity price forecasts are subject to greater variability as the forecasts are subject to various underlying factors (e.g. generator offer strategies, unplanned outages, load requirements, etc.) which themselves are variable and difficult to estimate. The AESO Board believes the methodologies and assumptions used by Management to forecast these costs are reasonable and the forecasts for these costs are approved.

Recognizing that these are estimates, the AESO Board and Management have an objective to forecast these costs as close to actual values as possible, which will minimize the differences that will have to be addressed through the AESO’s deferral account reconciliation process. Also, Management has indicated that the changes to the AESO’s procurement practices for Ancillary Services that were implemented in 2011 will be reviewed for effectiveness consistent with Stakeholder requests. The AESO Board supports such a review and sharing the results with Stakeholders.
8. Decision Overview

On balance, having regard for all views and its own assessment, the AESO Board finds the AESO’s 2013 budgeted costs for general and administrative costs, interest costs, amortization costs, other industry costs, capital costs, and the forecasts for 2013 transmission lines losses costs and ancillary services costs as identified in the table on Page 8 of this Decision to be reasonable and are hereby approved. Management and the AESO Board will continue to closely monitor demands on the resources of the AESO during 2013, obtain Stakeholder input and, as appropriate, make adjustments.

In closing, the AESO Board would like to highlight its appreciation to Stakeholders for their time and effort to participate in the BRP and commends the effort expended by Management to inform Stakeholders and to seek their input on the proposal.

The AESO Board welcomes any comments from interested parties on improvements to the BRP and has requested that Management continue its discussions with Stakeholders toward ongoing process improvement.

Signed at Calgary, Alberta on December 21, 2012.

For the AESO Board,

original signed by

AESO Board Chair
Sarah E. Raiss