

December 16, 2010

Dear Market Participants and Interested Parties:

Re: **Intertie Framework – Available Transfer Capacity Allocation – Draft Term Sheet**

During 2010, the AESO consulted with stakeholders on a proposed Intertie Framework which included a recommendation for the allocation of available transfer capacity (“ATC”) on the interties. Consultation materials and stakeholder comments to the framework can be found on the [AESO website](#).

The AESO appreciates stakeholders’ input as the framework considerations for interties in the Alberta market is a complex challenge and warrants some thoughtful dialogue with industry to advance this work. The AESO plans to continue to work with industry on the details related to dynamic scheduling, tariff products and policy interpretation over the next year. At the same time, the AESO is proceeding with a preliminary rule language recommendation for the ATC allocation component of the Intertie Framework in anticipation of the completion of new interties during 2011 and the need for clear rules to manage any allocation issues. Accordingly, this letter provides a roadmap for the development of rule language, an attachment which summarizes the comments on the ATC allocation part of the intertie framework, and a draft rule term sheet that will be used in the development of the integrated interties rule in February.

The proposed new ATC allocation ISO rule is intended to provide clarity, certainty and transparency to industry with regard to how the AESO plans to administer ATC allocation in the event of congestion on or across the interties. As the AESO develops this rule, it is proposing to fully integrate all existing ISO rule and Operation Policies and Procedures (“OPP”) provisions on the subject matter. Specifically, the AESO has reviewed ISO Rule 6.3.3, and OPPs in the 300 series which deal with interchange scheduling, dispatch and congestion management protocols for interties. Once the AESO has drafted the new integrated ISO rules, the AESO will consult following the normal consultation process which includes:

- Issuing a Letter of Notice with attached draft rules,
- Receiving comments from stakeholders on the draft integrated rules,
- Replying to stakeholder comments,
- Finalizing the draft rules, and
- Filing the draft rules with the Alberta Utilities Commission.

The AESO plans to draft the integrated rule language and consult with market participants in February 2011. We plan to consult over two months to allow sufficient time for integrated rule language finalization prior to a planned filing to the AUC in March 2011.

It should further be noted that the integrated rule is proposed to be developed in the proposed new market rules framework.

Included in the integrated ATC rule will be the recommended change in policy from “last in first out” (or LIFO) curtailment to prorata (including the methodology for such). While we recognize that further attention may be required to review the more comprehensive changes appearing in the integrated ATC rule, we are confident that these changes will meet AESO objectives of removing redundancies and potential interpretation conflicts and overlaps that may now appear in the 300 series of OPPs in conjunction with Section 6.3.3 and the new ATC policy recommendations.

Accordingly, in anticipation of issuing the draft integrated rule language in February 2011, the AESO has prepared the attached term sheet which:

- (1) Provides an overview of the core provisions contemplated for inclusion in the integrated rule,
- (2) Indicates if the provisions are new or existing in current ISO Rules and Operating Policies and Procedures (OPPs), and the location of the existing provisions in the ISO Rules and OPPs; and
- (3) Describes how the AESO plans to consolidate the existing ISO Rule and OPP provisions within the integrated rule dealing with ATC.

With regard to more background on the integrated rule initiative, the AESO recognizes that consultation continues on the transition of authoritative documents (TOAD) initiative. Specifically, we have reviewed comments to the discussion paper related to a market rules framework and approach. As identified to the TOAD working group and as outlined in the market rules framework discussion paper, the AESO intends to advance work on the transition in an efficient fashion focusing on “in flight” rule changes as they occur and are prioritized.

The integrated rule related to ATC provides a prime example and opportunity for the AESO to work with industry to transition the related OPPs in the 300 series and the current Section 6 ISO rules, and develop a sound, clear, transparent and fully integrated set of rules in the revised format while focusing the consultation on the rule change related to ATC allocation. A recommendation paper on process and content for additional market rules in the transition process will follow in the New Year.

The AESO does not require but will accept written stakeholder comments on the attached term sheet as it is only being provided as information. However, the AESO will not be issuing replies to written comments received on the term sheet but will consider the feedback as part of rule drafting. Stakeholders will have an opportunity to provide more formal written comments on the draft integrated ATC rule when it is issued for stakeholder consultation in February 2011, and in accordance with AUC rule 017 procedures.

Any questions regarding the term sheet should be directed to Kevin Dawson, Program Manager Interties, at Kevin.dawson@aeso.ca at (403) 539-2623 or to Cheryl Terry at cheryl.terry@aeso.ca or at (403) 539 – 2836.

Yours truly,

Original signed by

Kelly Gunsch
Vice President, Market Services

Attachments:

- Available Transfer Capability Allocation – Summary of Stakeholder Feedback and AESO Response
- Intertie Rules including Available Transfer Capacity Allocation Term Sheet

Attachment: Available Transfer Capability Allocation – Summary of Stakeholder Feedback and AESO Response

As noted in the recommendation paper, the ATC allocation component of the Intertie Framework requires immediate attention to accommodate the addition of future interties. The current ISO Rules/OPPs provide the protocols for management of individual interties; however, how intertie capacity will be allocated across a constrained path that limits total transmission capacity for a combination of lines is not addressed.

The recommendation paper proposes shifting from a ‘last in-first out’ allocation protocol to ‘price first then prorata’ allocation across interties based on approved schedules. The key comments received from stakeholders with regard to the protocol change are:

- Ensure the methodology chosen does not reduce the utilization or efficiency of the interties.
- Many supported pro rata allocation as the fairest alternative given other competing options, though there continues to be request for consideration of “firm rights” outside the province, and possibly an auction model to allocate access.
- While the “pricing” of interties will be reliant on dynamic scheduling, there was no objection to using price as the first allocation method prior to pro rata.

Overview of Stakeholder Comments to ATC Allocation Recommendations from Intertie Framework

Original comments received have been posted to AESO website; this table represents a summary only.

- Disagree with AESO recommendation:
 - ATCO Power – prefers an auction model to allocation ATC at T-2 when bids are required. Argue pro rata not FEOC.
 - IPCAA – concerned that recommendation will reduce utilization of interties rather than increase it. Prefer ATC as “rights” model, held through auction. Also notes that offer obligations should go with the rights.
 - MATL – Concerned about securing minimum amounts of ATC and that the allocation method may impact minimum requirement in short term
 - Morgan Stanley Capital – concerns about use of etags in curtailment protocol and timing for cuts. Recommends a T-90 methodology for scheduling.
 - NaturEner – prefers ATC pro rata allocation be capped at the intertie constraint in allocation calculation. Concerned about financing related to ATC allocation methodology as it undermines “firm” contracts outside of province and that cuts are too late.

- Powerex – notes that existing investments in long term firm should have priority over the existing tie and system ATC. Concern about insufficient detail in paper to respond. May lead to inefficient use of interties. Requests AESO to examine previous AESO recommendation that respects intertie investment.
- UCA – interested in auction model for ATC rights / access to determine value of transaction.
- Agree with AESO recommendation:
 - Capital Power – agrees that prorata allocation is the best solution, noting that the denominator should be the total system import ATC shared between the lines.
 - ENMAX – conceptually agrees with price then prorata approach to ATC allocation, though notes that depending on methodology may lead to inefficient use of lines and impact on price setting for market.
 - TransAlta – agrees merit order should be used before prorata

AESO Response:

ATC allocation is a difficult proposition as any commodity with a limited supply increases in value to those that want to use it. The AESO notes that ATC allocation rules will always be required to address situations of priced tie breakers and to designate how allocation will occur. However, it is expected that the frequency of need for the ATC allocation rule will decrease as new transmission and related products are added to address the current forecast of intertie congestion.

To address potential congestion, the AESO views the current recommendation for ATC allocation to most fairly allocate transmission to parties interested in delivery of energy and ancillary services across the interties in real time. The recommendation allows for the accommodation of transmission rights as procured in other jurisdictions by limiting the ISO congestion management to just after their respective scheduling timelines. This is a tradeoff as dealing with ISO related congestion late does not allow for time for intertie parties to unwind contracts that may be curtailed. However, moving the curtailment management process earlier (to T-2 for example) does not allow for parties with firm transmission outside the Province to schedule as late as 30 minutes prior to the delivery hour. The AESO views the impact on current transmission contracts and practices needs to be respected. Further, leaving the final curtailment process later should maximize the use of the ATC by eliminating unnecessary cuts to counterflow or wheel transactions. Should industry wish to amend these practices, sufficient notice should be provided to allow current commercial terms to expire.

In response to stakeholder comments about an auction to allocate ATC, the AESO is concerned about the additional seam that will be created in adding new rates for transactions to / from Alberta during congestion. As congestion is anticipated to diminish, the efforts to examine this option are not a priority at this time.

The recommended protocol further is consistent with Transmission Congestion Management practices in general in Alberta.