Alberta Electric System Operator

2012 Amortized Construction Contribution Rider I

December 28, 2012
The Alberta Utilities Commission
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2012 Amortized Construction Contribution Rider I
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1 Introduction

1. On June 28, 2012, the Alberta Electric System Operator (AESO) filed an application with the Alberta Utilities Commission (AUC or Commission) which requested approval of an amortized construction contribution rider for incorporation into the AESO’s tariff, with an effective date to be determined by the Commission.

2. The notice of application was issued on July 3, 2012. Statements of intent to participate (SIPs) were received from the following parties on or before July 17, 2012:
   - AltaLink Management Ltd. (AltaLink)
   - ATCO Electric Ltd. (AE)
   - ENMAX Power Corporation
   - the City of Lethbridge and the City of Red Deer
   - FortisAlberta Inc. (Fortis)
   - the Industrial Power Consumers Association of Alberta (IPCAA)
   - the Office of the Utilities Consumer Advocate (UCA)
   - TransCanada Keystone Pipeline GP Ltd. (Keystone)

2 Background

3. On March 5, 2010, the AESO filed a general tariff application (2010 ISO\(^1\) tariff) with the Commission.\(^2\) As part of that application, the AESO requested approval of a new rider (Rider I) under its tariff that would provide market participants with the option of amortizing contributions in aid of construction over a period of up to 20 years rather than paying contributions in advance, as required under the existing tariff.

4. In its decision in respect of the 2010 ISO tariff,\(^3\) the Commission made no specific findings about the merits of Rider I, but indicated that the Rider I proposal would be reviewed in conjunction with the Commission’s consideration of a management fee on contributions in aid of construction, within the 2011 Generic Cost of Capital (2011 GCOC) proceeding\(^4\) initiated to establish the return on equity for a number of Commission-regulated utilities.\(^5\)

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\(^1\) Independent System Operator, operating as the AESO.
\(^2\) Application No. 1605961, Proceeding ID No. 530.
\(^4\) Application No. 1606549, Proceeding ID No. 833.
\(^5\) Decision 2010-606, paragraph 302.
5. On March 14, 2011, the AESO filed its evidence on Rider I in the 2011 GCOC proceeding. The AESO included its Rider I related evidence from the 2010 ISO tariff proceeding within its filing for the 2011 GCOC proceeding and also indicated that it had modified certain aspects of its Rider I proposal. The modifications were made to reflect discussions it had held with stakeholders during the 2010 ISO tariff application proceeding and following the issuance of Decision 2010-606. One of the significant modifications made by the AESO was the revisions to Rider I intended to minimize the risk of default.

6. The Commission issued Decision 2011-474 in respect of the 2011 GCOC proceeding on December 8, 2011. In that decision, the Commission approved the AESO’s Rider I proposal in principle, but directed the AESO to file a specific Rider I application that would give effect to its approval in principle while addressing certain related matters also set out in the decision.

3 The current application

7. The application responded to all directions related to Rider I set out in Decision 2011-474 and summarized the AESO’s compliance with those directions.

8. The application consisted of the following:

- a cover letter dated June 28, 2012
- the AESO’s main application document
- appendices to the main application document, including:
  - Appendix A – proposed Rider I terms and conditions
  - Appendix B – a proposed definition of the term “financial information” to be used in conjunction with the ISO tariff
  - Appendix C – an Excel document devised by the AESO to compare the impacts on capital-related elements of transmission facility owner (TFO) revenue requirements under conventional and Rider I financing
  - Appendix D – a black line version of the AESO’s proposed Rider I terms and conditions

9. As part of the application, the AESO requested:

- confirmation that it had satisfactorily responded to the Commission’s directions set out in Decision 2011-474
- approval of an amortized construction contribution Rider I, as set out in Appendix A of the application, to be effective as of a date determined by the Commission
- approval of the definition of “financial information” provided in Appendix B of the application for use in the ISO tariff, to be effective on the same date as Rider I

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7 Decision 2011-474, paragraph 538.
8 Decision 2011-474, paragraphs 539 through 542.
9 Exhibit 1.
10 Exhibit 2, pages 1 through 14.
11 Exhibit 2, pages 15 through 18.
12 Exhibit 2, page 19.
13 Exhibit 3.
• approval of the inclusion of a Rider I applicability provision within the terms of each of Rate DTS, Rate PSC, and Rate STS as discussed in Section 2.1 of the application, to be effective on the same date as Rider I, and
• such other relief as the Commission may deem appropriate

10. In their SIPS, four parties (Fortis, IPCAA, Keystone and the UCA) indicated support for the application and recommended that it be approved as filed, without any further process. The remaining five parties either did not object to the application or did not state a position in their SIPS.

11. On August 13, 2012, the Commission issued correspondence in which it indicated that, based on its review of the application, the Commission had determined that no additional process steps would be required. Accordingly, the Commission advised registered participants pursuant to Section 9 of the Alberta Utilities Commission Act, SA 2007, c. A-37.2 that it intended to process the application without additional process steps unless persuaded by a registered participant that additional process steps were necessary.

12. The Commission received submissions in respect of its August 13, 2012 correspondence from AE\textsuperscript{14} and AltaLink\textsuperscript{15} on August 15, 2012. In response to these submissions, the Commission issued further correspondence setting out additional process steps to consider the application.

13. Information requests were submitted to the AESO by both AE and AltaLink on September 5, 2012. The AESO responded to the information requests on September 19, 2012.

14. The Commission received argument submissions from AE, AltaLink and the AESO on September 28, 2012.\textsuperscript{16} Reply argument was filed by AltaLink and the AESO on October 5, 2012.

15. The Commission considers the record for Proceeding ID No. 1982 to have closed on October 5, 2012.

16. The Commission has reviewed the evidence, argument, and reply. Any references to specific parts of the record are intended to assist the reader in understanding the Commission’s decision, but should not be taken as an indication that the Commission did not consider the entire record as it relates to that issue.

4 Compliance with Decision 2011-474 directives

17. The AESO addressed the following specific matters in the application:

• compliance with the Decision 2011-474 directive to prepare a specific Rider I application
• provision related to termination of Rider I charges (opt-out option)
• provisions related to conversion of a construction contribution and to control opting in and out of Rider I

\textsuperscript{14} Exhibit 19.01.
\textsuperscript{15} Exhibit 20.01.
\textsuperscript{16} The Commission also received a letter (Exhibit 29.01) from the UCA on September 28, 2012 which indicated that because statements supporting the approval of the application set out in its SIP continued to reflect its position, the UCA would not be filing argument.
• alignment of the Rider I term and asset service lives
• other incidental changes to the AESO tariff necessitated by the approval of Rider I

4.1 Preparation of specific Rider I application

18. At paragraph 538 of Decision 2011-474, the Commission directed the AESO to file a specific Rider I tariff application that would give effect to the Commission’s approval of Rider I in principle while addressing certain other specific matters also set out in that decision.

19. In Section 1.1 of the application, the AESO noted that several utilities filed applications in February 2012 which requested that the Commission review and vary Decision 2011-474, and that the Commission addressed these requests within Proceeding ID No. 1697 and through the issuance of Decision 2012-15417 on June 4, 2012. The AESO noted that as part of its findings in that decision, the Commission found that notwithstanding the Commission’s indication that stranded asset issues related to the implementation of Rider I would be addressed in a future proceeding, in the interim, the AESO could still file the specific Rider I application in accordance with its findings in Decision 2011-474. The AESO further noted that it had prepared the application both in response to the Rider I related directions in Decision 2011-474 and in accordance with the findings in Decision 2012-154.

4.2 Potential abuse of opt-out option

20. At paragraph 539 of Decision 2011-474, the Commission made findings regarding the need to ensure that the AESO’s Rider I terms and conditions would not make a market participant’s decision to adopt Rider I irrevocable. These findings are reproduced below:

539. First, the Utilities recommended that the decision by a customer to adopt Rider I should be irrevocable and that Rider I should remain in place for the term agreed to by the customer. The Commission finds that the decision by a customer to adopt Rider I should not be irrevocable. The AESO argued that the take up of Rider I may be limited if the decision to adopt Rider I is irrevocable. The Commission considers that the value of adopting Rider I, as a means of alleviating the accumulated customer contributions on the balance sheets of the TFOs, may be constrained if customers are not allowed to opt out. In addition, the Commission expects that the AESO’s ability to deny or rescind Rider I will provide the necessary protection for the TFO’s and prevent Rider I customers from abusing the opt out option. The Commission therefore expects that the AESO will include adequate terms and conditions in its Rider I tariff application to prevent abuse of the Rider I opt out option.18

21. In response to this direction, the AESO devised more detailed provisions in its Rider I terms and conditions relating to Rider I termination as compared to the equivalent parts of the Rider I terms and conditions it prepared for the GCOC proceeding.

22. The AESO submitted that the new provisions it proposed address the Commission’s concerns about potential abuse of the Rider I opt out option because:

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18 Decision 2011-474, paragraph 539.
the proposed subsection 4(2)(b) requires a market participant to take Rider I for at least 12 months
the proposed subsection 4(4)(b) allows the AESO to deny a request in the event of repeated opting-in and opting-out by a market participant
the proposed subsection 4(4)(c) allows the AESO to deny a request in the event of probable harm to a transmission facility owner

23. The AESO noted that its proposed additions to the Rider I termination provisions clearly set out the matters the AESO will primarily consider when responding to opt-out requests.

4.3 Opting in and out of Rider I

24. The Commission findings at paragraph 540 of Decision 2011-474 rejected a proposal that there should only be a one-time limited period for customers to convert existing contribution balances into Rider I payments. However, to prevent the possibility that opting in and out of Rider I could complicate utility forecasting, the Commission directed the AESO to devise Rider I provisions designed to apply some control over opting in and out. Paragraph 540 is reproduced below:

540. Second, the Utilities recommended that there should be a one-time limited opt-in period for customers to finance their existing accumulated balance of contributed capital through Rider I.[] The Utilities argued that, in the absence of an opt-in period, there is the potential for financial harm to the TFOs during periods of capital restraint, arguably because a TFO may not be able to raise sufficient capital to replace the customer contributions. The AESO argued that an opt-in period may not give customers ample time to assess the implications of Rider I, which may limit the uptake of Rider I. Again, the Commission considers that the value of adopting Rider I, as a means of alleviating the accumulated customer contributions on the balance sheets of the TFOs, may be constrained if there is an opt-in period. Therefore, the Commission does not accept the recommendation by the Utilities regarding the limited one-time offer for Rider I.

However, the Commission is also concerned that uncontrolled entries and exits into and out of Rider I could unduly complicate forecasting for utilities. The Commission accepts the argument of the AESO that its ability to deny or rescind Rider I will prevent customers from abusing Rider I. Accordingly, the Commission expects that the AESO will include adequate terms and conditions in its Rider I tariff application to prevent this type of abuse of Rider I by customers to the detriment of the TFOs.19

25. In its response to the directives set out in paragraph 540, the AESO drafted new provisions set out in subsection 1(5) of its Rider I terms and conditions describing the information and factors the AESO would consider when evaluating market participant Rider I requests. In particular, the AESO noted that:

- subsections 1(5)(a), (b), and (c) detail the information the AESO will consider in assessing the financial capability of the market participant
- subsection 1(5)(d) allows the AESO to deny a request for Rider I in the event of repeated opting-in and opting-out by a market participant
- subsection 1(5)(e) allows the AESO to deny a request for Rider I in the event of probable harm to a transmission facility owner

19 Decision 2011-474, paragraph 540.
26. In addition to these provisions, the AESO also noted that paragraph (f) of subsection 1(5)\(^\text{20}\) provides broad discretion for the AESO to consider other factors that may be relevant the AESO’s consideration of a market participant’s request for Rider I.

27. The AESO submitted that the additional provisions set out in subsection 1(5) should be sufficient for its initial implementation of Rider I. In response to an AE information request, the AESO explained that it has not established a specific number or frequency of early terminations that would be considered frequent terminations; however, the AESO explained that as little as one early termination could provide a sufficient basis for denial of a subsequent request depending on the reasons for the request.\(^\text{21}\) The AESO added that if, after gaining sufficient experience with conversions to Rider I monthly charges, it appears that abuse of entry and exit is occurring, the AESO may propose more stringent provisions for opting in and out of Rider I as part of a subsequent tariff application.

4.4 Alignment of Rider I term and service lives of financed assets

28. At paragraph 541 of Decision 2011-474, the Commission made the following findings related to a concern about a potential mismatch between the term of Rider I payments and the time period over which assets financed by way of Rider I are depreciated:

541. Third, the Commission is concerned that the term of the Rider I payments may not match the depreciation lives of the asset financed by way of Rider I. This would, in turn, require that the remaining depreciation expense for the asset financed by Rider I, beyond the Rider I amortization term, be included in the TFO’s revenue requirement and be paid for by customers other than the Rider I customer. The Commission is of the view that no one, other than the customer who is adopting Rider I, should be required to pay for the recovery of the cost of any portion of the assets financed by Rider I. The Commission expects that the AESO’s Rider I application will resolve this issue.\(^\text{22}\)

29. In its response to this directive, the AESO submitted that the Commission’s concern underlying the directive appeared to arise from the fact that, while the average service lives of transmission assets are typically 40 or more years, Rider I amortizes construction contributions over a term of not more than 20 years.

30. The AESO submitted that while the Decision 2011-474 direction suggests that non-Rider I market participants will be required to pay the remaining depreciation expense for assets financed by Rider I, the capital-related costs of the contributed assets are fully recovered through Rider I over the Rider I amortization term. As such, the AESO submitted that there would be no remaining costs to be recovered at the end of the Rider I term. As described in its Rider I evidence during the 2011 GCOC proceeding, the AESO noted that Rider I is structured to ensure that it recovers all costs included in a TFO’s revenue requirement that are related to the contributed assets.

31. The AESO noted that it had assessed the possibility of extending the Rider I term to 40 years or more to match the service lives of contributed assets. However, the AESO submitted that such an extension would be likely to materially reduce the utilization of Rider I by eligible

\(^{20}\) Paragraphs 31 and 33 of the application refer to subsection 1(4). The Commission presumes that the AESO intended to refer to subsection 1(5) in these paragraphs.

\(^{21}\) Exhibit 24.01, AE-AESO-002.

\(^{22}\) Decision 2011-474, paragraph 541.
market participants. Furthermore, the AESO submitted that extending the Rider I term from 20 years to 40 or more years would extend the duration of the additional default risk associated with Rider I financed assets.

4.5 Incidental changes

32. In Section 2.2 of the application, the AESO discussed its request to modify the Rate DTS, Rate PSC, and Rate STS schedules of the ISO tariff to recognize that Rider I applies to these rates. The AESO explained that it intended to reference Rider I in these rate schedules only when Rider I is approved, and that the changes to the rate schedules would be effective on the same date as Rider I.

33. In addition, the AESO indicated that it had revised some provisions and language of the Rider I terms and conditions to more clearly describe the rights and obligations associated with Rider I and to reflect the AESO’s current practices for its authoritative documents. In one area in particular, the AESO requested approval from the Commission to incorporate the definition of financial information (as currently defined for use in the ISO rules) for use within the ISO tariff.

34. The AESO noted that in Appendix D to the application, it provided a black line version of its Rider I terms and conditions that showed the changes it proposed in relation to the Rider I terms and conditions as compared to the Rider I terms and conditions it prepared for the GCOC proceeding.

4.6 Financial security requirements

35. In response to information requests\(^23\) the AESO explained that it has replaced a description of specific requirements for the form of financial security with a reference to Section 103.3, Financial Security Requirements and Section 103.7, Financial Default and Remedies of the ISO rules. The AESO explained that these provisions will apply to, but not limited to:

- the process to establish unsecured credit
- the process followed when there is a failure to comply with financial obligations
- the process for requesting additional or replacement financial security
- the process for determining a proxy credit rating
- the process for monitoring and assessing a market participant’s financial stability

36. The AESO explained it would use its judgment to reasonably assess the specific circumstances of a decision to allow, deny or rescind a conversion to Rider I monthly charges. In doing so, the AESO would engage the TFOs in making any determinations related to expectation of harm and to rely on the TFOs to identify such circumstances as they arise.

37. The AESO submitted that the financial security requirements provided for in the ISO rules are appropriate and sufficient for the purpose of Rider I, and that no modification of Rider I financial security requirements is required. It added that the AESO’s periodic tariff applications provide opportunities for the AESO, a TFO, or an interested party to bring forward further recommendations to improve or refine Rider I.

\(^23\) Exhibit 24.01, responses to AE information requests and Exhibit 25.01, responses to AltaLink information requests.
5 Commission assessment

38. The Commission considered the AESO’s compliance with the Rider I related directives set out in Decision 2011-474 prior to issuing its correspondence dated August 13, 2012. As previously noted, the Commission letter of August 13, 2012 advised registered parties that it intended to process the application without additional process steps unless persuaded by a registered participant that additional process steps were necessary.

39. The Commission’s decision to issue its August 13, 2012 correspondence reflected the Commission’s determination based on the record at that time that the AESO had substantively complied with each of the directives. The decision to issue the letter also reflected the Commission’s findings, as set out in Decision 2011-474 and upheld in Decision 2012-154, that other customers should not bear the risk of credit default by a Rider I customer.

40. In Decision 2011-474 the Commission found:24

542. Finally, with respect to any residual concerns regarding other customers bearing the risk of credit default by a Rider I customer, the Commission reiterates its view that no customer, other than the customer who is adopting Rider I, should be required to pay for the recovery of the cost of any portion of the assets financed by Rider I.

41. This finding was later upheld in Decision 2012-154:25

36. The review panel finds that all parties to the proceeding leading to Decision 2011-474 were given sufficient notice of the issue of stranded assets in the context of Rider I and were provided with an opportunity to provide evidence and argument on that matter. Further, on August 2, 2011 the Utilities filed a letter confirming that they required no further process respecting the issue of stranded assets and risk adjustments resulting from the adoption of Rider I. The review panel finds that the process established in the proceeding leading to Decision 2011-474 was fair and provided the Utilities with ample opportunity to present evidence regarding the issue of stranded assets and risk adjustments resulting from the adoption of Rider I. For these reasons, the review panel finds that the procedural errors alleged by the Utilities in support of their application for a review of Decision 2011-474 regarding the issue of stranded assets and risk adjustments resulting from the adoption of Rider I do not demonstrate a substantial doubt as to the correctness of Decision 2011-474. Therefore, this ground for a review and variance of Decision 2011-474 is denied.

42. Under the AESO tariff, as currently approved, a construction contribution is paid in advance in full and, as a result, other customers do not presently bear any risk associated with construction contributions.

43. In Decision 2011-474, the Commission approved the AESO’s proposal to convert future and existing lump sum construction contributions from AESO customers into an amortized stream of payments as a means of alleviating the potential problem of accumulated customer contributions for the TFOs. It also found that the implementation of Rider I may also assist with the credit metrics of the TFOs. The Commission had weighed these benefits against the potential costs and agreed with the AESO that the likelihood of a customer becoming insolvent coincident

with the backer of its financial security also becoming insolvent was extremely small. Therefore, while the Commission approved Rider I in principle in Decision 2011-474, it also found, as it relates to Rider I, that “when a utility asset is stranded and is no longer required to be used for utility service, any outstanding costs related to that asset cannot be recovered from other customers.”

44. In Decision 2012-154, “the review panel consider[ed] that the issue of stranded assets and who bears the risk in relation to stranded assets should be evaluated in the context of the relevant legislation and case law and therefore expects to either re-initiate Proceeding ID No. 20 or initiate a generic proceeding regarding asset disposition and stranded assets.” The Commission also determined that “in the interim, the AESO may file its separate Rider I tariff application which should give effect to the findings in Decision 2011-474. To the extent that stranded asset issues arise as a result of the implementation of Rider I, those issues are better suited to be addressed in either the generic proceeding or Proceeding ID No. 20 as the case may be.”

45. In a letter dated June 28, 2012, the Commission reaffirmed this finding and provided additional clarification:

9. The Commission has reviewed the Utilities’ letter and considers that the issues raised by the Utilities will be determined as part of either Proceeding ID No. 20 or another generic proceeding. In that proceeding, the Commission will consider whether its findings should apply to 2011 and 2012 or prospectively. Following completion of either Proceeding ID No. 20 or another generic proceeding, and if the matter has not already been addressed, the Commission will establish a proceeding to determine whether any adjustments to the fair return of the Utilities should be made for 2011 and 2012.

46. In this proceeding, both AltaLink and AE expressed concerns in argument about the implications flowing from the implementation of Rider I.

47. AltaLink submitted that it should not bear any default risk associated with the AESO’s implementation of its Rider I proposal regardless of how small the probability of such an occurrence. It added that in circumstances where AltaLink is not making the decisions that could potentially result in adverse impacts to it, AltaLink should be held harmless from any such potential impacts.

48. AE stated that it has significant concerns regarding the Rider I credit default risk and the associated impact on stranded asset risk. AE explained that it is clear from the record that the AESO alone will determine credit and default risk and direct the TFO to invest accordingly. AE submitted that if Rider I is implemented, stranded cost risk would exist and it could be material (i.e., high impact, low probability). Therefore, AE should be held harmless from any risk of default by a Rider I customer.

49. Both AE and AltaLink have requested, in their respective general tariff applications (Proceeding ID No. 1989 and Proceeding ID No. 2044), that a deferral account be established to

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29 Proceeding ID No. 1697, Exhibit 24.01, paragraph 9, pages 2-3.
30 Exhibit 28.02, AltaLink argument, paragraph 12, page 3.
31 Exhibit 26.01, AE argument, paragraph 2, page 1.
deal with credit default risk that could potentially arise from connecting customers who are eligible for the AESO’s proposed Rider I.

50. Both AE and AltaLink have expressed concern that the potential for risk is a function of the AESO’s securitization requirements and whether the financial security demanded by the AESO is adequate. AE argued that risks change over time and it is the AESO, not the TFOs, that will be responsible for monitoring both the viability of projects and the financial stability of the market participant. In reply argument AltaLink suggested that, given the credit default risk associated with the implementation of Rider I and the potentially high impact associated with that risk, the financial security provisions put forward by the AESO for Rider I cannot be relied upon to provide financial security in the context of Rider I and requires further assessment.

51. In its evidence on Rider I matters submitted in the 2011 GCOC proceeding, the AESO concluded: 32

…that any risk of default associated with Rider I is appropriately and fully mitigated by:

- the AESO’s right to deny a market participant’s request for Rider I;
- the availability of Rider I only after commercial operations of the connection facilities[sic]; and
- the requirement that a market participant provide security for any unrecovered construction contribution during the term of Rider I.

52. The UCA supported the AESO’s position: 33

Mr. Marcus’s evidence identified concerns regarding the potential that a large customer with risky or resource-based loads could default, leaving a bill for other customers to pay. However, the version of Rider I filed in this proceeding, which requires payment of security and which essentially front-loads the payments and reduces them as funded costs are amortized, alleviates these risks. Furthermore, Rider I is structured so that the contributor must advance funds during the construction phase – thus taking the risk if the transmission project must be cancelled in the event that the underlying investment cannot go forward. This is the riskiest phase of development. The UCA believes that this provision is important to serve the public interest by removing risk from ratepayers. It also reduces any potential economic distortion because the project developer must deploy its own risk capital before its project comes on line and only receives a refund when the riskiest stage of development is complete. (footnote omitted)

53. IPCAA similarly supported the AESO’s position: 34

Rider I as proposed would have no financial impact on other customers; all incremental costs found to be caused by contributed transmission facilities would be fully covered by payments from Rider I users. Concerns in the past, raised by non-industrial interveners, have now been addressed. IPCAA notes that when asked if the method outlined by the AESO to address default risk resolves UCA’s concerns, Mr. Marcus stated he ‘believes

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32 Proceeding ID No. 833, Exhibit 77.01, paragraph 24, page 4.
33 Proceeding ID No. 833, Exhibit 210.02, paragraph 316, page 64.
34 Proceeding ID No. 833, Exhibit 212.01, paragraph 8, page 3.
that this security requirement addresses the concerns with regard to industrial customers’. (footnote omitted)

54. The Utilities\textsuperscript{35} did not comment on whether the risk of default associated with Rider I was fully mitigated under the AESO’s proposal, but argued that:\textsuperscript{36}

… the AESO alone will determine credit and default risk and direct the TFO to invest accordingly. Therefore, the evidence of the Utilities in this proceeding supports TFOs being totally insulated from any risk of default by a Rider I customer. The TFOs understand that this would be the case under the AESO’s current design proposal. Indeed, the AESO confirmed at the hearing that it did not contemplate that the ‘TFOs would bear any of the risk for abandonment of a service funded through Rider I’. (footnote omitted)

55. As outlined above, during the 2011 GCOC proceeding, the Commission was provided with evidence that any risk to ratepayers arising from the implementation of Rider I was fully mitigated under the AESO’s Rider I proposal. This was uncontested by the registered parties in that proceeding.

56. Conversely, in this proceeding, the Commission was provided with a statement by AE that risk does exist and it could be material (i.e., high impact, low probability) and a statement from AltaLink that, given the credit default risk associated with the implementation of Rider I and the potentially high impact associated with that risk, the financial security provisions put forward by the AESO for Rider I cannot be relied upon to provide financial security in the context of Rider I and requires further assessment.

57. As a result, both AE and AltaLink have requested that the Commission protect them from potential harm by establishing a deferral account in each of their respective general tariff applications to deal with credit default risk that could potentially arise from connecting customers who are eligible for the AESO’s proposed Rider I.

58. While the Commission had been prepared to approve Rider I subject to the AESO’s compliance with each of the Rider I-related directives set out in Decision 2011-474, the approval of Rider I was also subject to the Commission’s finding that other customers should not bear the risk of credit default by a Rider I customer. Under the current contribution regime, where contribution is paid in full before the asset is included in rate base, there is no risk that other customers will bear the cost of that portion of the asset. If, however, as a result of Proceeding ID No. 20, the Commission finds that the TFO is not liable for the cost of stranded assets, then the balance of any contribution funded by way of Rider I that is in default would be paid by other customers, contrary to the Commission’s determination in Decision 2011-474. Accordingly, with the benefit of the record established in this proceeding, the Commission is no longer willing to approve Rider I before the issue of stranded assets and who bears the risk of stranded assets is properly examined and dealt with in the context of the relevant legislation and case law. The Commission considers that if the TFOs, that may realize some benefit from the implementation of Rider I, are unwilling to bear any potential risk, the Commission is similarly not prepared to impose any potential risk on customers, other than the customer that is opting into Rider I.

\textsuperscript{35} The utilities worked together to file a joint submission in this proceeding, the individual utilities included AltaGas Utilities Inc., AltaLink L.P., ATCO Electric Ltd., ATCO Gas, ATCO Pipelines, ENMAX Power Corporation, EPCOR Distribution & Transmission Inc., and FortisAlberta Inc.

\textsuperscript{36} Proceeding ID No. 833, Exhibit 209.01, paragraph 279, page 70.
59. The Commission recognizes that, in Decision 2011-474, the AESO was directed to file a separate Rider I tariff application and, in Decision 2012-154, the Commission indicated that if stranded asset issues arose as a result of the implementation of Rider I, those issues would be addressed in either in a generic proceeding or Proceeding ID No. 20. The Commission no longer considers that implementation of Rider I can proceed without first resolving the stranded asset issues.

60. The Commission denies the AESO’s requested approval of the Amortized Construction Contribution Rider I proposal. However, once the stranded asset issue is resolved in a future proceeding as previously outlined, the AESO may reapply for its proposed Rider I as part of a future ISO tariff application.

6 Order

61. It is hereby ordered that:

   (1) The AESO’s proposed amortized construction contribution Rider I is not approved.

   (2) Once the stranded asset issue is resolved in a future proceeding, the AESO may reapply for the proposed amortized construction contribution Rider I as part of a future ISO tariff application.

Dated on December 28, 2012.

The Alberta Utilities Commission

(original signed by)

Mark Kolesar
Vice-Chair

(original signed by)

Anne Michaud
Commission Member

(original signed by)

Bill Lyttle
Commission Member
### Appendix 1 – Proceeding participants

<table>
<thead>
<tr>
<th>Name of organization (abbreviation)</th>
<th>counsel or representative</th>
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<tbody>
<tr>
<td>Alberta Electric System Operator (AESO)</td>
<td>J. Martin</td>
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<td>R. Sharma</td>
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<td>M. Mitchell</td>
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<td>AltaLink Management Ltd. (AltaLink)</td>
<td>H. Williamson</td>
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<td>A. Ross</td>
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<td>M. Massicotte</td>
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<td>D. Morris</td>
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<td>ATCO Electric Ltd. (AE)</td>
<td>L. Keough</td>
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<td>B. Yee</td>
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<td>C. Ashton</td>
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<td>S. Parhar</td>
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<td>L. Kerckhof</td>
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<td>ENMAX Power Corporation</td>
<td>J. Petratur</td>
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<td>K. Hildebrandt</td>
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<td>R. Lottemoser</td>
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<td>G. Weismiller</td>
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<tr>
<td>Cities of Lethbridge and Red Deer</td>
<td>O. Lenz</td>
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<td>J. Jorgensen</td>
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<td>N. Chymko</td>
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<td>M. Turner</td>
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<td>FortisAlberta Inc. (Fortis)</td>
<td>T. Dalgleish, QC</td>
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<td>J. Walsh</td>
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<tr>
<td>Industrial Power Consumers Association of Alberta (IPCA)</td>
<td>M. Forster</td>
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<td>V. Bellissimo</td>
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<td>J. Cheng</td>
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<td>R. Mikkelsen</td>
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<tr>
<td>Office of the Utilities Consumer Advocate (UCA)</td>
<td>C. R. McCreary</td>
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<tr>
<td>TransCanada Keystone Pipeline GP Ltd. (Keystone)</td>
<td>A. Jin</td>
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<td>V. Kostesky</td>
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</tbody>
</table>
The Alberta Utilities Commission

Commission Panel
  M. Kolesar, Vice-Chair
  A. Michaud, Commission Member
  B. Lyttle, Commission Member

Commission Staff
  V. Slawinski (Commission counsel)
  W. MacKenzie
  J. Halls
  K. Schultz