

## AESO Discussion Paper – Intertie Framework Stakeholder Comment Matrix

Comments submitted by Tonbridge Power Inc. for Montana Alberta Tie Limited (MATL)  
May 28, 2010

Section	Feedback Requested	Stakeholder Response
<b>Opening Comments</b>		<p>MATL welcomes the Intertie framework document as driving to a conclusion of this policy development process. In particular:</p> <ul style="list-style-type: none"> <li>• MATL is very pleased that the decision is made that MATL be included in the resolution of the ATC import capacity as delineated on page 6 and page 13. We concur with the AESO's decision to have MATL as an integral part of import ATC determination, since we are building now and will be an intertie in short order.</li> <li>• Since MATL is building now and is expects to be in service one year hence, it is of vital importance to MATL and its shippers that the ATC resolution be comprehensive and issued soon.</li> <li>• MATL therefore looks forward to the application of the policy of ATC allocation as it will apply to MATL when MATL goes into commercial operation, expected to be end of Q2, 2011.</li> </ul>
<b>4.0 Policy Coherence</b>	<p>The AESO is interested in feedback on the principles for alignment of interties into the Alberta market and larger interconnected marketplace. The AESO is also interested in the order priority that should be given to the principles given there would be likely tradeoffs between principles.</p>	<p>The AESO quite rightly outlines its discussion as developing <b><u>Policy Coherence</u></b>. We note that the coherence of the policy objectives as set out, are</p> <ul style="list-style-type: none"> <li>• Facilitate competition by reducing barriers while maintaining reliability;</li> <li>• Facilitate restoration and expansion of intertie capacity that proves sustainable over the long term and supports efficient market processes;</li> <li>• Support a level playing field for generation imports, exports and load where possible</li> </ul>

		<ul style="list-style-type: none"><li>• Ensure product development which is consistent with Alberta legislation and policy</li><li>• Manage seams between neighbouring jurisdictions and access to regulated and deregulated markets.</li><li>• Support system dispatch through the energy market merit order.</li></ul> <p>In short, Alberta needs to encourage interties to achieve this policy. Interties will create more competition, will restore intertie capacity, reduce barriers, and further provide a level playing field. All of this, in MATL's view, is consistent with the essential policy of fostering competition which can only be beneficial for consumers.</p> <p>Alberta has long needed and continues to encourage additional intertie capacity. For reasons that are set out below, future interties are likely to be developed in large part, if not exclusively, by merchant developers.</p> <p>The appropriate policy principles going forward will necessarily be required to respect the interest of participants today including the commercial arrangements required to support the development of new interties that are not funded indirectly by Alberta ratepayers, but rather by competitive commercial interests.</p> <p>To-date, only non rate base (commercial/merchant) interests have indicated a willingness to increase intertie capacity. The MATL project was developed in that context, in the environment of an Alberta Government Policy and regulatory structure that is intended to encourage intertie developments. Yet to do so, commercial interests need to raise capital from sources which cannot look to the consumer/ratepayer for repayment. The AESO should thus seek to provide a regulatory framework that provides sufficient certainty to projects that have demonstrated "need", such that they can be rendered bankable and fundable. Elements that reflect requirements for financeability must necessarily form a significant foundation for the establishment of new policy, and in particular, the new policy should be established so as not to frustrate bankability of new interties and possibly even enhance them.</p>
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		<p>AESO to both coordinate and to achieve on a reasonable basis the benefits MATL offers to Alberta consumers. MATL understands that the studies undertaken by the AESO indicated that the likelihood of MATL being constrained was very small. Based on that understanding, MATL developed its internal risk profile that is currently incorporated into the project economics. This is a critical element for MATL since the availability of a minimum level of contract capacity is essential to MATL's shipper users and hence MATL's revenues.</p> <p>MATL does not have recourse to revenue support through rate base recovery from Alberta consumers. The allocation of ATC and the ability to operate, as was originally conceived, is important to any intertie project. An ATC allocation policy that undermines a project's economics, and bankability, will not only harm MATL's stakeholders, but will result in economic harm to consumers, power developers and power users in Alberta as well, since MATL offers clear and substantial benefits to Alberta, its electricity system and users.</p> <p>Notwithstanding our support of current AESO policy positions, it is MATL's belief that the current mix of policy positions does not, and will not facilitate the expansion of the intertie system into Alberta, an expansion that offers substantial economic benefits to all participants, both power developers and power consumers. To enhance this potential development, policy principles need to recognize the key development drivers and elements that are necessary to bring expanded commercial investment in the area of transmission interties. In short, we suggest that the policy being developed must consider maintaining new intertie project bankability.</p> <p>We also think that the efficacy of the NEB and AUC permitting processes need to be respected and facilitated with approved policies in favor of the development of interties. There is little point in facing the challenge of permitting an intertie if it can't be used. This suggests that the AESO should design a system that gives equal weight to the rights of new independent lines as well as consider existing generation and interties. We have mentioned above that we think future interties will depend on commercial arrangements and not consumer to pay for</p>
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		<p>them. The paradox of a policy that favours existing arrangements only is AESO will have indirectly favored incumbent generation and interties while to present an balanced policy approach. In short, merchant lines need some assurance that the permits they applied and received are implemented when received from the NEB and AUC as they are required for their economic survival.</p> <p>Finally, it is expected that a short term allocation of ATC would be only an interim measure, and that the need for allocation would be rendered moot through the restoration of capacity to at least the level of path ratings. The AESO, in fulfilling its mandate to support intertie development, is expected to direct or facilitate the necessary investments within Alberta to address ATC constraints within a few years particularly through additional, approved intertie.</p> <p>The solution being proposed with the LSSI arrangements is therefore a short term, but welcome and pragmatic approach, and we support it and appreciate the efforts to expand it to safe limits. However, real capital investment is also needed to restore and expand intertie capacity in the midterm. The ultimate solution is to grow the ATC capacity, rather than rely on short term allocation rationing. Therefore, the allocation of lower ATC over a longer term could result in undesirable opportunities for gaming and for barriers to new development to arise. These would result in the equally undesirable consequence of Alberta remaining relatively islanded.</p>
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<b>5.0 Intertie Framework</b>	The AESO is interested in feedback on the intertie framework and the decisions identified.	

<p><b>5.1 Real-Time Dispatch/ Scheduling</b></p>	<p>The AESO is interested in stakeholder comment to the following questions:</p> <ul style="list-style-type: none"> <li>• Should the AESO adopt real-time dispatch and scheduling on the interties and what are the impacts to market participants?</li> <li>• If yes, should the AESO do so through dynamic schedules, intra-hour scheduling every 5 minutes or by using the existing scheduling process in real-time?</li> <li>• Should the AESO again explore a dispatch up/down service or system market product on the interties as a substitute to real time dispatch and what are the suggested designs?</li> <li>• Do stakeholders interpret policy to permit for a bi-lateral market?</li> </ul>	<p>MATL takes no position with respect to real-time dispatch at this time but reserves the right to make its position known in subsequent discussions with stakeholders and the AESO.</p>
<p><b>5.2 Transmission Rights - Policy</b></p>	<p>The AESO is interested in stakeholder comment as to whether current policy permits the assignment of transmission rights to ATC and whether interties should be treated by the same rules as internal generators and loads.</p>	<p>The question posed on page 14 ('does current policy permit assignment of transmission rights to ATC') we believe is the incorrect question to ask. Instead, the more pertinent question is whether the AESO should adopt a policy (or reinforce an existing policy) that will ensure that transmission rights are assigned on a transparent, equitable, and hopefully bankable basis and that the recipient of such rights can be assured in their investment and planning that access to the transmission assets is recognized by all parties of interest. Absent such transparency</p>

		<p>and certainty, future intertie development will be commercially discouraged, if not frustrated in terms of an inability to secure necessary long duration shipper agreements, which are the foundation for financial underwriting of a merchant transmission development.</p> <p>In the EUB hearing of the MATL application in 2007, Powerex argued before the Alberta EUB (the Board) that the Board should impose a condition in any approval that might be issued by it that the MATL would not "diminish flows on existing interconnections". In other words, their position was that the flows on the BC Tie should be accorded a priority. The Board concluded the conditions proposed by Powerex were not warranted as such conditions would either duplicate conditions imposed by the NEB or that the Board was satisfied such issues would be appropriately dealt with by the AESO in the fulfillment of its legislative mandate. MATL understands this AESO process is in furtherance of the fulfillment of that legislative mandate.</p> <p>MATL is also aware of a position advanced by TransCanada that there is an established position of 'first in time first in right' relative to capacity contracted on the BC Tie and believes that should apply to the policy here. MATL observes that position is only relevant, at best, to a court determined issue of competing contractual interests for capacity on a single transmission facility. That first in time, first in right concept has neither relevance nor applicability to the establishment of an ATC policy by the AESO, which policy has at its heart the interests of Alberta and Alberta electric system consumers, rather than just the interests of contracting parties. Thus the court's decision made to reinforce pre-existing contract rights in another case, is not applicable or even appropriate to the development of coherent policy of how to restore intertie capacity. In short, a decision which essentially enforced pre-existing negotiated contract rights does not apply nor go to the normative discussion of what policy should be in the future to meet the needs of Alberta and its consumers.</p> <p>The current lack of transmission rights in Alberta, coupled with the allocation based upon injection/withdraws, is a procedure that is not compatible with an increasingly congested transmission system which</p>
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		<p>reflects competing and conflicting needs. MATL believes the existing portfolio of policies is too restrictive and limits the AESO from the development of new policy initiatives that will be more effective in addressing the various seams issues now confronting Alberta.</p> <p>We believe a procedure, that will incorporate new amendments into the Transmission Regulations governing the Alberta system, should include a commitment to “Competitive Procurement of Transmission Facilities” aimed at the enhancement of critical new transmission facilities, including interties. This confirms that the AESO transmission rights policy should not inadvertently serve as a deterrent to the competitive development of future merchant interties.</p>
<p><b>5.3 Product Priority</b></p>	<p>The AESO is interested to stakeholder comment to the following questions:</p> <ul style="list-style-type: none"> <li>• What would be objectives of a new product on top of an opportunity transmission product to import and export customers?</li> <li>• What would be the design options of a new product (see appendix A for assistance)?</li> <li>• Should ATC priority be assigned by tariff/commercial product?</li> <li>• Would an auction to different products be preferred and what would be the design of that auction methodology?</li> </ul>	<p>MATL does not support the assignment of ATC by product. Transmission parties that are related in some way to generation, particularly hydro, will have the ability to date order the e-tag long in advance due merely to the nature and dispatch advantages of hydro over other forms of generation. Thus, such participants will have the opportunity to work such a system so as to assure themselves of a priority allocation at all times, in contravention of the stated policy elements of the coherent policy framework being developed.</p> <p>We have stressed that commercial financing support for new interties is rooted in long term contracts. Hence it is reasonable that the interim allocation, before long term intertie capacity is restored, be based on long term capacity contracts which is the root of bankability. Since bankability generally requires a contract term of ten years or longer, an allocation based on the ratio of contracts with longer term duration would be fairer, more transparent and not unreasonably impede future intertie development while protecting other interests in a balanced way. And such an approach would be consistent with the Alberta policy intent of encouraging future intertie capacity. In such an allocation, MATL would contribute 300 MW to such a calculation.</p>

<p style="text-align: center;"><b>5.4 ATC Allocation Tiebreaker</b></p>	<p>The AESO is interested in stakeholder comment to the following questions:</p> <ul style="list-style-type: none"> <li>• Should the AESO adopt a pro-rata solution instead of LIFO as a tie breaker?</li> <li>• If pro-rata is used, how should it be calculated?</li> <li>• If LIFO is used, should the AESO use LIFO at xx:yy or only approve up to the system ATC?</li> <li>• What time xx:yy should be used in curtailment to maximize utilization of the ATC and provide maximum flexibility to participants and transmission operators?</li> <li>• What differences in application may be required for import as opposed to export transactions?</li> <li>• What other design options are there for considering ATC allocation tiebreakers?</li> </ul>	<ul style="list-style-type: none"> <li>a) LIFO – MATL does not support LIFO, as it would completely frustrate new intertie bankability and development. Bankers for such projects would have to assume that all constraints would be allocated to the new intertie, thus rendering it un-bankable. This is inherently in conflict with a policy objective of fostering new interties.</li> <li>b) Time dated E tags – MATL does not support time dated e-tags priority ordering, in cases of a tie in merit stacking. Hydro generation in particular can bid significantly in advance due to its inherent dispatch advantages and thus bid way in advance in order to always win such a tie breaker. This advantage would effectively result in a last in first out result, based on time dating.</li> <li>c) While MATL is able to support the application of a pro-rata allocation of capacity as part of a short term interim measure, it feels that the elements of the calculation need to be on the basis of long term capacity because that is the driver of bankability. We suggest a minimum term of ten years. Such an approach is consistent with and appropriately reflects the commercially competitive environment being encouraged by Alberta. The coherent policy intent outlined above would not be met with an allocation on the basis of path ratings, or on the basis of thermal capacity. It is, instead, met with principles that are be congruent with the commercial marketplace which require minimum levels of ATC capacity to receive support from shippers and financial institutions, and thus an allocation on firm long term contracts is more policy congruent.</li> </ul> <p>The only allocation method which achieves all policy intents is an interim policy of pro-rata allocation based on existing valid long term capacity contracts, confirmed by the FERC or by the courts, of which MATL has 300 MW.</p> <p>In other words, while MATL can support a short term pro-rata tiebreaker application while full intertie capacity is being restored or increased, this support is for the concept and is separate from and implies no endorsement of the example given.</p>
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<b>7.0 Next Steps</b>	The AESO is interested in stakeholder comment on the AESO's next steps.	We believe the timeline for stakeholder comments is very tight but necessary to settle this important policy matter. The framework that AESO selects will have ramifications on intertie development for the foreseeable future. We recommend, therefore, that if more time be given for further comments, it should be provided with a view towards timely policy implementation without undue delay. Policy certainty is a pre-requisite to the crystallization of projects which are at an advanced or construction stage.

The following table can be used as a guide to proposing tariff product design. Please fill out the suggested design detail as per the characteristic. You may suggest new characteristics.

Characteristic	Proposed Product Design
<b>I1 Legislated Requirements</b>	
I1a Planning	
I1b Recovery of connection costs	
I1c Recovery of system costs	
I1d Losses	
<b>I2 Currently-Approved Tariff Provisions</b>	
I2a Bulk system charge	
I2b Local system charge	
I2c Point of Delivery (POD) charge	
I2d Operating reserve charge	
I2e Loss charges	

<b>Characteristic</b>	<b>Proposed Product Design</b>
I2f Voltage control (TMR) charge	
I2g Other system support charge	
I2h Take or pay provisions	
I2i Transaction fees	
I2j Construction contribution/ Interconnection Costs	
I2k Generator system contribution	
I2l Contract term	
<b>I3 Other Considerations</b>	
I3a Conceptual basis	
I3b Market access	
I3c System planned to accommodate	
I3d Curtailment for capacity limitations	
I3e Price offers/bids	
I3f Supply surplus/shortfall conditions	
I3g Market Obligations	

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