

CONFIDENTIAL

November 17, 2020

Alberta Electric System Operator  
330 5<sup>th</sup> Avenue SW  
Calgary, AB  
T2P 0L4

Dear Pauline McLean and Todd Fior

**Re:** Module C and Forbearance of ISO Rule 103.3 (Financial Security Requirements)

We are writing further to your recent request for the Market Surveillance Administrator (“MSA”) to forbear from enforcing contraventions by the Independent System Operator, operating as the Alberta Electric System Operator, (“AESO”) and market participants of Sections 2 and 3 of ISO Rule 103.3 (Financial Security Requirements) (“Security Rule”).

The Security Rule requires: (i) the AESO calculate the amount of all financial obligations of a market participant, and (ii) a market participant to provide and maintain financial security equal to or greater than the total amount of all financial obligations minus any unsecured credit granted by the AESO in accordance with the Security Rule.

In your request you have advised as follows:

“We have reviewed the scope of these requirements in light of the Alberta Utilities Commission’s (“AUC”) decisions in Proceeding 790 – Module C (“Module C”), which will result in adjustments to the loss charges and credits that were initially billed during the historical period from January 1, 2006 to December 31, 2016. Given the unique circumstances of this resettlement for the historical period noted above, we do not believe it to be in the public interest for the AESO to calculate, and for market participants to provide and maintain, additional financial security. It would not be fair to request additional financial security from current market participants, as some of the entities involved in this resettlement for the historical period noted above may no longer exist or they no longer own the assets (they may no longer be a “market participant”) and, therefore, have no obligation to provide additional financial security. We also recognize that there is a low risk of default by current market participants since: (i) many of the current market participants have investment credit ratings, (ii) the length of time of exposure is short, as payment must be made within sixty (60) days, and (iii) there are other rights and remedies available to the AESO to enforce payment. It is also important to minimize any additional

regulatory burden and costs to current market participants to the extent possible given the current economic climate.

The AESO does not believe that this requested forbearance by the AESO, or the associated forbearance determination by the MSA, will impair unduly the establishment or continuation of any competitive market for any person, product, class of products, service or class of services.”

We have reviewed and considered the foregoing AUC Module C decisions, the circumstances giving rise to the AUC order directing adjustments to line loss payments for the period of January 1, 2006 to December 31, 2016 as set out above, including the implications of the application or not, of the Security Rule.

The MSA, pursuant to section 23.1 of the *Transmission Regulation* (T Reg.) may refrain from the “exercise of any power or carrying out any part of its mandate...”, which includes exercising its authority to enforce contraventions of ISO Rules or reliability standards, “in whole or in part and conditionally or unconditionally”, if it finds as a question of fact, that there are practices, processes plans or other measures in place to protect the safe reliable and economic operation of the Alberta Interconnected Electric System (“AIES”).

In this circumstance, the MSA has decided to refrain from enforcement action with respect to the Security Rule, having made the following findings of fact:

- (a) The circumstance is unique and is intended to address historical allocation of line losses and as such does not directly impact current transmission services;
- (b) There are other measures in place to recover outstanding line loss adjustments; and
- (c) The contravention of the Security Rule is unlikely to impair unduly the safe, reliable and economic operation of the AIES.

Subject to there being no misstatement of any material fact pursuant to section 23.1 of the T Reg., the MSA will refrain from pursuing any enforcement action with regard to the Security Rules as follows:

- i. the MSA will refrain from exercising its power to pursue any enforcement action against the AESO for its failure to calculate additional financial security under the Security Rule solely as it relates to any adjustments to a market participant’s loss charges or credits arising from Module C;
- ii. the MSA will not take any enforcement action against any market participant for its failure to provide and maintain any additional financial security under the Security Rule solely as it relates to any adjustments to such market participant’s loss charges or credits arising from Module C;

- iii. the AESO, in its sole discretion, may withdraw its request for forbearance, in whole or in part, by providing ten (10) days' prior written notice of such withdrawal to the MSA, or (ii) the MSA, in its sole discretion, may revoke such forbearance, in whole or in part, by providing ten (10) days' notice to the AESO, and upon the expiration of the notice period for withdrawal or revocation, as the case may be, such forbearance will be of no further force and effect; and
- iv. such forbearance shall not become effective until such time that the MSA receives the AESO's signed acknowledgement and agreement to the terms and conditions outlined in this letter requesting forbearance of the above noted sections of the Security Rule.

The AESO and the MSA agree to communicate this matter to the Alberta electricity industry and the public by posting a copy of this letter on their respective websites in a timely manner.

Subject to the same terms and conditions as set forth above, the MSA acknowledges and agrees that this letter also satisfies the AESO's reporting obligations under Section 21.1 of the *Electric Utilities Act* (Alberta) and ISO Rule 103.12 (Compliance Monitoring) with respect to any suspected contraventions of the Security Rule relating to Module C. Except as set forth above, this letter does not constitute forbearance of any other ISO Rule and each such other ISO Rule shall remain in full force and effect and subject to the MSA's surveillance, investigation, and enforcement thereof.

If acceptable, please sign and return a copy of this letter at your earliest convenience acknowledging the granting of your request and the associated terms and conditions. This letter may be signed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

Sincerely,

Derek Olmstead

Derek Olmstead  
Market Surveillance Administrator

The AESO hereby acknowledges the granting of their request for forbearance and agrees with the associated terms and conditions in this letter this 17th day of November, 2020.

**Todd D. Fior** Digitally signed by Todd D. Fior  
Date: 2020.11.18 07:41:36 -07'00'

Todd Fior, Vice-President, Finance and Chief Financial Officer

**Pauline McLean** Digitally signed by Pauline  
McLean  
Date: 2020.11.17 17:13:02 -07'00'

Pauline McLean, Vice-President, Law, General Counsel and Corporate Secretary