



ALBERTA

AFFORDABILITY AND UTILITIES

*Office of the Minister
MLA, Lethbridge-East*

December 10, 2024

Aaron Engen
President and Chief Executive Officer
Alberta Electric System Operator
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Calgary, Alberta T2P 4H4
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Dear Aaron Engen:

On July 3, 2024, the Government of Alberta directed the Alberta Electric System Operator (AESO) to advance the technical design of the AESO's Restructured Energy Market (REM). The government also informed the AESO of its decision to move away from a congestion-free transmission planning standard to an optimally planned transmission policy, and to allocate new transmission infrastructure costs and all ancillary services costs based on cost causation principles.

Since that time, the AESO has advanced the high-level design of the REM alongside extensive stakeholder consultations. Additionally, Affordability and Utilities has engaged with industry stakeholders on further transmission policy reforms that are needed to ensure Alberta's transmission policy continues to support Alberta's affordability, reliability, and sustainability objectives. I would like to thank the AESO and all stakeholders for the invaluable work done to date and their ongoing commitment to these endeavours.

The Government of Alberta remains committed to modernizing Alberta's electricity system to ensure it meets the long-term needs of all Albertans. To this end, I am writing to inform the AESO of recent government decisions to further guide the ongoing technical design of the REM, as well as the AESO's responsibilities for transmission planning and the Independent System Operator (ISO) Tariff under the *Transmission Regulation*. In 2025, the government will bring forward the legislative tools and amendments necessary to implement all market and transmission policies.

Market Policy

The government directs the AESO to continue the REM technical design as outlined in my July 3, 2024, letter, subject to these further decisions:

- The AESO will develop a market-based congestion management mechanism that recognizes incumbency, provides impacted generators with a means of managing the dispatch risk arising from congestion constraints, and considers the participation of controllable load and energy storage. Any revenue generated from this mechanism will be applied towards the cost of transmission projects prioritizing congested areas of the province.
- The AESO will continue to have robust engagement with stakeholders on the development of the ISO Rules that will implement the REM, while ensuring alignment with the government's objectives of reliability, affordability, investability, economic efficiency, and sustainability.
- The AESO will develop an energy pricing framework in accordance with guidance that will be provided within legislation.
- The AESO will collaborate in an Alberta Utilities Commission-led initiative to implement 5-minute settlement for transmission-connected loads, generators, and interties by 2032 and for all loads by 2040.

The Government of Alberta is directing the AESO to continue developing the detailed design of the REM in consultation with stakeholders, with a view to finalizing the detailed REM design before the end of 2025, in alignment with this direction letter as well as my July 2024 direction letter. The AESO should continue consulting with industry on the ISO Rules to ensure they align with the AESO's finalized REM design.

Government will bring forward the necessary policy tools to allow the initial set of ISO Rules required for the REM to be enacted via legislation. Under this approach, the initial REM rules will be enacted but not brought into effect before the end of 2025. The AESO will continue to work with stakeholders to develop an implementation plan that considers overall industry readiness for the market transition.

With implementation of the REM rules and the AESO's new market systems infrastructure, an interim period will commence. During this interim period, a mechanism will be provided for the AESO to correct possible technical deficiencies with the REM rules in an expeditious manner. The new market would then operate for a period of time before the interim period comes to an end.

At the end of the interim period and beyond, any proposed amendments to the REM rules will require Alberta Utilities Commission approval in accordance with the established process for ISO Rules.

Transmission Policy

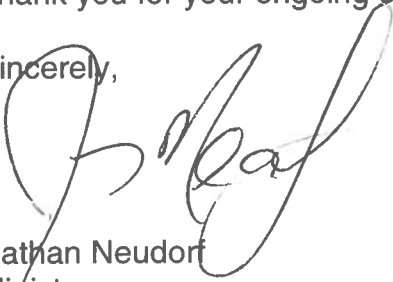
Building on the reforms outlined in my July 3, 2024, letter, the Government of Alberta has made the following decisions which provide further guidance with respect to the AESO's responsibilities for planning the transmission system and developing the ISO tariff:

- Implement a cost allocation framework for new transmission infrastructure based on cost-causation principles by requiring new generators to contribute to transmission infrastructure costs by replacing the Generating Unit Owner's Contribution (GUOC) with an upfront and non-refundable Transmission Reinforcement Payment (TRP).
 - These payments will have no upper limit, a floor of \$0/megawatt, and will apply to both transmission-connected and distribution-connected generators.
 - TRP rates will be calculated as a function of the suppliers' proximity to transmission capacity, their technical attributes and characteristics, and the cost of reinforcing the transmission system.
- Recover line losses through a system-wide average starting on January 1, 2027.
- Require the AESO to file a needs identification document for the Alberta Intertie Restoration project by December 31, 2026, to restore the Alberta-British Columbia intertie to or near to 950 megawatts.
- Require the AESO to procure and maintain high levels of ancillary services to support full import flows on the Alberta-British Columbia Intertie and the Montana Alberta Tie Line.
- Require the AESO to increase the path rating of the Alberta-Saskatchewan Intertie as part of the McNeill Converter's end-of-life replacement to leverage the use of the existing transmission capacity in the region.
- Remove the competitive procurement requirement for upgrades or enhancements to the path rating of interties.

I understand that the AESO has initiated consultation with stakeholders to develop the details of the optimal transmission planning framework and I look forward to this work advancing over the coming months. In addition, the government directs the AESO to commence stakeholder consultation to implement other transmission policy changes, with a view to expeditious implementation.

Thank you for your ongoing effort and dedication.

Sincerely,

A handwritten signature in black ink, appearing to read 'N. Neudorf', written over the word 'Sincerely,'.

Nathan Neudorf
Minister

cc: Karl Johansson
Chair, Alberta Electric System Operator

Carolyn Dahl Rees
Chair, Alberta Utilities Commission

Derek Olmstead
Administrator and Chief Executive Officer, Market Surveillance Administrator