Volume 1B, Undertaking No. 2:

By Mr. Buonaguro (UCG) to Mr. Palladino

Page 135 & 136

25 UNDERTAKING – TO PROVIDE A COPY OF THE
1 STUDY IN ALBERTA THAT IS REFERRED TO IN
2 UCG NO. 18(B)

Response:

Please find attached the study referenced in UCG No. 18(b): FortisAlberta's Common Approach to Maximum Investment Levels as found in Section 9, Appendix O of their 2010/2011 GTA (Volume 1B – Undertaking 2 – Attachment 1.pdf).

FORTIS
ALBERTA

Common Approach to Maximum Investment Levels
2010/2011 Distribution Tariff Application

FORTIS ALBERTA

2010/2011 Distribution Tariff Application

Section 9 - Appendix O

Common Approach to Maximum Investment Levels

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FORTIS ALBERTA	**2010/2011 Distribution Tariff Application** **Section 9 - Appendix O** **Common Approach to Maximum Investment Levels**

EXECUTIVE SUMMARY

FortisAlberta Inc. ("FortisAlberta" or "FAI") is filing this document, *2010/2011 Distribution Tariff Application – Appendix O - Common Approach to Maximum Investment Levels* to address two purposes.

Part I of this document is a report on FortisAlberta's response to a 2008/2009 NSA commitment to enter into discussions with other utilities and stakeholders to attempt to arrive at a common approach to Maximum Investment Levels ("MILs"). This includes discussion of the background, consultation process, and recommendations for common guiding principles and a methodology recommendation for the establishment of common MILs. A summary of stakeholder comments and the degree of consensus/non-consensus among the participating utilities is also provided.

Part II of the document contains FortisAlberta's proposed MILs filed in the 2010/2011 Distribution Tariff Application based on the common approach outlined in Part I.

FORTIS ALBERTA	2010/2011 Distribution Tariff Application Section 9 - Appendix O Common Approach to Maximum Investment Levels

PART I – COMMON APPROACH

1.0 BACKGROUND

1.1 FortisAlberta

Clause 6 of FortisAlberta's 2008/2009 Negotiated Settlement Agreement ("NSA"), which was approved in Alberta Utilities Commission ("AUC") Decision 2008-011 stated:

> Commencing in the first half of 2008, FAI will initiate discussions with other utilities and stakeholders to attempt to arrive at a common approach to MIL between Alberta utilities and FAI will file evidence in its next DTA on the need, or necessity, for further changes to the level of MIL.

In the application leading up to its 2008/2009 NSA, FortisAlberta had filed *Appendix N: Review of Maximum Investment Levels* in response to AUC directives arising out of the Company's 2007 Phase II Proceeding in which the AUC found that FortisAlberta's maximum investment levels ("MILs") as contained in its *Customer Terms and Conditions of Distribution Access Service* ("T&Cs") may require revision, and directed FortisAlberta to undertake a review of the MILs for each rate class.

In FortisAlberta's 2007 Phase II proceeding, and in the absence of a MIL review in that application, FortisAlberta proposed a nominal 10% increase in MILs for some rate classes. The AUC approved the proposed 2007 changes considering the cost allocation evidence, some inflation, intergenerational equity and the increasing prevalence of underground construction for new services. At the time, some customer groups had expressed concerns around the setting of MILs. Specifically, the residential developer group ("UDI") had recommended that FortisAlberta invest "fully" in residential services

and the irrigation customers ("ASBG/PGA") recommended that FortisAlberta commence investing in new irrigation service sites in a similar manner that it had been done for other rate classes. The parties also generally proposed that FortisAlberta should provide a review of investment levels for its next DTA, which FortisAlberta agreed to, and the AUC subsequently directed.

FortisAlberta advanced compliance with the AUC's directive to the 2008/2009 Phase I Tariff Application and incorporated the results of its review and stakeholder consultations into its proposed MILs and capital expenditures/customer contributions forecasts for 2008 and 2009. The filing of that review and the proposals contained therein were the result of extensive analysis and a pre-application consultation process that had occurred between the issuance of Decision 2006-099 and the filing of the 2008/2009 Application. The conclusions and proposed changes to MILs were established using a principle-based approach, which considered key factors such as providing an economically efficient price signal, considering intergenerational equity and harmonization with the AESO tariff. Also, FortisAlberta's proposal for its 2008/2009 MILs were based on actual costs which reflect higher construction costs, and more frequent use of underground construction for new services.

Subsequently, it was agreed in the 2008/2009 NSA that the maximum investment levels ("MIL") of FAI would be as proposed in the Application (Appendix N) with the exception of residential and street lighting, which were increased over 2007 levels by 10% effective January 1, 2008 and by a further 10% over 2008 levels effective January 1, 2009. In addition, it was agreed that FortisAlberta would initiate discussions with other Alberta utilities and stakeholders to attempt to arrive at a common approach to the setting of MILs. The NSA was subsequently approved by the AUC in Decision 2008-011.

As evidenced above, the review of FortisAlberta's MILs and heightened efforts to arrive at a more common and defined approach for the establishment of MILs has been ongoing since 2006.

1.2 Other Alberta Utilities

Since 2008, the other AUC-regulated distribution utilities of ATCO Electric Ltd. ("ATCO Electric"), EPCOR Distribution and Transmission Inc. ("EDTI") and ENMAX Power Corp. ("EPC") have all filed applications that include provisions and proposals for the setting of distribution MILs in their respective distribution tariffs. In each of these proceedings, these utilities have acknowledged the "common approach" commitment of FortisAlberta, and agreed to participate in these discussions. Notwithstanding such participation, FortisAlberta appreciates that some of these utilities have MIL proposals currently before the AUC, which will be ruled on in due course, and will have to be implemented for the approved period of their tariff(s). For purposes of this report, FortisAlberta and the distribution wire owners noted above will be referred to as "the Utilities".

At the transmission level, the Alberta Electric System Operator ("AESO")'s transmission tariff establishes the available investment in transmission interconnections requested by the distribution companies and transmission connected generators. As such, the approach employed by the AESO at the transmission level remains a parallel consideration. The AESO has recently embarked on a consultation process for its 2010 General Tariff Application, which includes consideration of AESO customer contribution policy recommendations resulting from an AltaLink Management Ltd. ("AML") hosted consultation process in 2008.

FortisAlberta also recognizes that there are other distribution wire owners in the province, such as the smaller municipalities and REAs, who are not regulated by the AUC, and who may or may not want to adopt any common approach that results from this consultation process.

1.3 Customer Stakeholders

In recent years, customer representatives and intervenors have also expressed an interest in the investment policies of wire owners and the AESO. Generally, concerns that have been raised include potential unfairness and inconsistency between wire owners' MILs, and the desire for the utilities to arrive at common basis for the setting of MILs. While these intervenors have understood the utilities' rationale for proposed changes in investment levels, some stakeholders have supported defaulting to a nominal 10% increase each year in the absence of a common approach.

Another contrasting theme, often expressed by new connecting customers, is that the costs to currently interconnect (customer contributions) are becoming excessive at the distribution and AESO levels, and they are paying a disproportionately higher cost to interconnect when compared to previously connected customers.

1.4 AUC

The AUC regulates the investment policies of the AESO and the four largest distribution wire owners in Alberta. Generally, the associated MILs have been approved for each tariff application on a case by case basis. That being said, in reviewing the background to the history of investment levels, a number of AUC (previously AEUB) Decisions had given strong guidance and confirmation on some of the key principles. For example, Decision 2005-096 on the 2006 AESO tariff, Decision 2002-082 on ATCO Electric's 2002 Investment Policy and 2001 decisions on the previous Transmission Administrator tariff, have all contained common guidance and direction with respect to MILs.

The AUC is now under some pressure from certain stakeholders to initiate an Alberta-wide, AUC-sponsored process to ensure all Albertans are treated consistently and fairly from an investment perspective. FortisAlberta is of the view, that there is significant MIL information already on the record, and if the AUC were to adopt a common set of guiding principles and methodologies resulting from the joint consultation process, a separate AUC process would be unnecessary and inefficient. If a common approach is approved through this process, the Utilities would be in a better position to adapt future MIL proposals to fit such AUC direction in due course.

2.0 SCOPE AND TIMING OF COMMITMENT

As noted, Part I of this report intends to address and document the response to the following NSA commitment:

> Commencing in the first half of 2008, FAI will initiate discussions with other utilities and stakeholders to attempt to arrive at a common approach to MIL between Alberta utilities and FAI will file evidence in its next DTA on the need, or necessity, for further changes to the level of MIL.

The first question which had to be answered was what does attempting to arrive at a "common approach" really mean? Given that each utility has different characteristics associated with servicing customers within their respective service areas, it follows that each utility also has different customer rate classes, costs and rate levels. To attempt to drive the investment levels of each utility to the same levels, without recognizing the very real differences in each utility's servicing characteristics, costs and tariffs, did not seem like a reasonable objective. As such, the Utilities agreed that a common approach does not necessarily mean arriving at "the same" investment levels, but rather, adopting similar guiding principles to setting investment levels.

In alignment with the above, the scope of stakeholder consultation and this report focuses specifically on a common approach to setting appropriate Distribution Tariff MILs - that is, the maximum investment which is to be applied at the individual, end-use customer's Point of Service. Therefore, it does not investigate potential changes to the Utilities' system investment, interrelated policies, terms and conditions or contracting mechanisms, as these would be better addressed within the context of a broader review and testing of the Utilities' respective Terms and Conditions in the Distribution Tariff Application(s).

With respect to timing, the expectation is that this evidence and any resultant proposed changes would form part of FortisAlberta's next Distribution Tariff Application ("DTA"). The "next DTA" for FortisAlberta is this 2010/2011 DTA, which encompasses both Phase I and Phase II elements. This approach will allow any approved changes to investment levels to propagate through to the distribution revenue requirement, Terms & Conditions of Service, cost allocation and the setting of new rates for the test period.

With respect to process, the NSA envisioned FortisAlberta initiating discussions in the first half of 2008. However, prior to FortisAlberta initiating such a consultation, AltaLink initiated a similar process for Customer Contribution Policy at the AESO transmission level in April 2008. As a result, the AUC-regulated transmission and distribution wire owners, the AESO and some large transmission connected customers, engaged in discussions about investment and customer contribution levels by participating in the AltaLink-led process. This included similar investment issues and principles that occur at the distribution level and considered principles (or key factors) previously filed in FortisAlberta's 2008/2009 DTA – Appendix N. To have two or more parallel consultations on the same matter was considered by FortisAlberta to be inefficient. As such, FortisAlberta participated in the AltaLink process along with other stakeholders as a starting point for the common approach discussions.

FortisAlberta also advised the DTA consultation parties that, once AltaLink had concluded its process, it planned to build on the consultations that had occurred to date by continuing discussions with the Utilities and other stakeholders. This process was to have a greater focus on investment policy and principles applied at the distribution level. The Utilities agreed to continue to participate in these ongoing consultations with

FortisAlberta and stakeholders. The following section summarizes the stakeholder consultation that has occurred with respect to finding a common approach to investment as per FortisAlberta's NSA commitment.

2.1 Consultative Process

To attempt to arrive at a common approach, the consultation steps taken are summarized as follows:

1. On December 1st, 2008, the Utilities had a preliminary discussion to:
   a. Confirm the scope of the consultation;
   b. Discuss the status of each utility's application(s) and MIL proposals; and
   c. Recommend a consultation process and identify expected participants.

2. On January 26th, 2009, FortisAlberta held discussions with its DTA consultation parties around expected participation and process, for this DTA consultation topic and others. Representatives of the UCA, IPCAA, PICA, CCA, ASBG/PGA and AUMA participated in a conference call. The AUC chose not to participate in these initial discussions, and UDI was invited but was unable to participate on the call. Parties were informed of the initiation of this process and there was support from call participants for the Utilities to proceed to work together in an attempt to develop a common approach on investment and report back to other stakeholders in a March 2009 consultation session.

3. On January 27th and March 4th, 2009, the Utilities held working sessions to:
   a. Research and compile current investment documentation, studies, status, and proposals, which would provide some context and allow for a common understanding and more meaningful input when all stakeholders came together;
   b. Develop a proposal from the Utilities for a common approach to MILs; and
   c. Identify specific areas of consensus and non-consensus.

4. Throughout early March 2009, the Utilities refined a draft proposal.

5. On March 16th, 2009, in a FortisAlberta 2010/2011 DTA pre-filing Stakeholder Session, the resulting Utilities proposal and specific areas of consensus and non-consensus were shared with other stakeholder participants, with the intent of soliciting further input and written comments by April 9th, 2009.

   The March 16th session was held at the UCA offices in Edmonton and was attended by representatives from AFREA, ATCO Electric, CCA, Central Alberta REA, EPC, EDTI, FortisAlberta, the UCA, and UDI. Subsequently, comments and input (without prejudice) were received from ATCO Electric, CCA, EPC, EDTI, UCA and UDI. These comments have been consolidated by FortisAlberta in a Consolidated Comment Matrix, which is attached as Attachment 1.

6. Based on the comments received, FortisAlberta considered the stakeholder input and proposes a Common Approach to MILs, with specific areas of consensus and

non-consensus identified. The resulting outcome and further discussion is now reflected in the Sections 3.0 through 6.0 of this document.

7. Part II (Sections 7.0 through 9.0) of this document provides FortisAlberta's Proposed MILs for 2010 and 2011 consistent with the proposed Common Approach to MILs.

3.0 GUIDING PRINCIPLES

3.1 Purpose

The purpose of an investment (or customer contribution) policy is to establish rules and guidelines that govern investments in customer extensions. These guidelines must allow new customers to receive a fair level of investment, while still ensuring that existing customers are not unduly burdened by the cost of such new extensions.

In the simplest terms, MILs form part of the utility's investment policy and, from the utility's perspective, are the maximum amounts that the company is willing to invest towards the cost of extending service to new customers and are applied at the individual, end-use customer's Point of Service. From the customer or rate class perspective, it is important that the MILs are set to achieve a reasonable and acceptable balance of what an individual customer pays upfront through a customer contribution versus what all customers in a particular rate class pay through ongoing average rates.

The Utilities recognize that historically there has been no single deterministic approach which precisely sets out investment levels. However, as evidenced by this initiative, there is a desire among stakeholders to establish an approach and method to achieve a degree of commonality among utilities in Alberta. Before embarking on the review of alternative method and the numerical analysis of setting MILs, the Utilities believed that it was essential to first agree on an acceptable set the guiding principles. These principles can provide a sound framework and rationale for deriving future MILs.

3.2 Past Considerations

Below are some of the factors or considerations that have been commonly referenced by Alberta utilities and the AUC in establishing MILs in past years:

- Provision of Economically Efficient Price Signals (example: 80/20 rule)
- Consideration of Intergenerational Equity
- Derivation of Maximum Investment based on Costs
- Consider Cost Allocation Study results and Revenue-to-Cost ratios
- Minimize upward pressure on rates
- Minimize cross subsidy or inequity between customers paying the same average rates
- Harmonize with the AESO tariff to ensure a smooth transition where the tariffs meet
- Consider the investment levels of neighboring utilities

While this list might not be exhaustive, it does provide a number of factors that need to be considered and reviewed in arriving at guiding principles going forward. Recently, utilities and other stakeholders have brought forward a number of these principles as a means of guiding their respective investment policies.

In the application leading up to its 2008/2009 NSA, FortisAlberta had filed *Appendix N: Review of Maximum Investment Levels.* This previous document provided a discussion of many of these factors, and at the time, proposed to give greater weighting to four guiding principles. These were:

- Provision of economically efficient price signals;
- Derivation of MILs based on costs;
- Consideration of intergenerational equity; and
- Harmonization with the AESO tariff.

In the AML hosted consultation process in 2008, members of a cross-industry stakeholder working group (which included the distribution companies) brought forward recommendations to the AESO for consideration in its next GTA. One of these recommendations was for the AESO and AUC to adopt a set of Guiding Principles for the development of the AESO Customer Contribution Policy at the transmission level. These recommendations can be found on the AESO website and are being considered further in the AESO's consultation on its 2010 tariff. Upon viewing this set of guiding principles, one can observe that they are not dissimilar from those proposed in this Common Approach document.

More recently, in ATCO Electric's 2009/2010 GTA, ATCO Electric summarized the guiding principles that were used in developing its latest proposed investment levels and stated that:

> ... these principles have all played a role in ATCO Electric's approach to investment policy in the past.
>
> a) The Maximum Investment Levels (MIL) should be set at a reasonable level that is a balance between what costs all customers in a particular rate class should bear, and what costs the individual new customer should bear.
>
> As per AEUB Decision 2000-1, Page 270,
>
> > An appropriate contribution policy (investment policy) therefore provides a suitable balance to an unlimited obligation

> to serve by imposing economic discipline on siting decisions...it exerts some of the discipline of the utilities economics on the economic decision-making of the customer.

b) The MIL should be set at a level that considers the subsidization between low connection cost customers and high connection cost customers.

c) The MIL should be adjusted gradually to minimize upward pressure on rates.

d) The MIL should maintain intergenerational equity, whereby the portion of the cost of an extension that the company invests in should be in similar proportion with previously established investment levels. Both new and existing customers should be treated similarly to the extent possible and should see a similar price signal when the system is or was extended to provide service.

e) The MIL should take into consideration the investment levels of neighbouring utilities.

f) The MIL should take into consideration the current costs to connect new customers.

As per AEUB Decision 2005-096, Page 56,

> ...the Board has determined that cost, not revenue, is the appropriate starting point for establishing the investment policy.

g) The MIL should take into consideration trends/movements within the industry (Example: more weight on underground services).

Given the above and the extensive ongoing discussions around investment policy that have occurred during the AESO tariff and other proceedings, it is FortisAlberta's view that there is a significant amount of information before the Commission to move towards a Common Approach for setting MILs in the province. That is, there already seems to be a high degree of commonality that already exists at the principle level.

3.3 Recommended Guiding Principles

After reviewing the guiding principles that have been referenced and applied in the past, the Utilities collaborated on developing the following set of Guiding Principles. Three of the four Utilities support all ten of these Common Guiding Principles in their entirety, while one of the Utilities supports the first nine principles and cites its concerns around Principle #10 in the consolidated comment matrix. Please refer to Attachment 1 for a summary of the comments received from the consultation participants with regard to these Guiding Principles.

1. MILs should be set to achieve a **reasonable balance of what an individual customer pays upfront through a customer contribution versus what all customers in a particular rate class pay through ongoing rates**. In other words, new customers should receive a fair and sufficient level of investment such that the majority of customers do not pay contributions for connecting, while still ensuring that existing customers are not unduly burdened by the cost of such new services.

2. MILs should **provide economic discipline** and price signals to new customers as they are connected to the interconnected transmission and distribution system, and these levels should be aligned with encouraging the **best long term economic and technical solution** to meet standard service requirements.

3. The maximum amounts that the company invests in a new extension on behalf of all customers should consider the **expected longevity or any other risks** associated with the new service.

4. The **current cost** to connect new customers is the appropriate starting point for establishing MILs.

5. Setting of MILs needs to respect each **utility's standards of service**, while recognizing that these standards and the associated costs will **change over time.**

6. Changes to MILs should balance the need to attain the target MILs over a **reasonable timeframe**, while ensuring there is **not undue upward pressure on tariff rates.**

7. Adjustments to MILs should consider **minimizing intergenerational inequity and cross-subsidy**, whereby the portion of the cost of an extension that the company invests in should be in similar proportion with previously established investment levels. Both new and existing customers should be treated similarly to the extent possible and should see a similar price signal when the system is or was extended to provide service.

8. To the extent practical, the structure of MILs (ex. fixed dollar amount, or $/unit) should generally align with **cost causation** and the rate structure which is applied to the customer.

9. MILs should be **simple** to administer and applied in a **consistent and transparent** manner.

10. Utilities should take into consideration the approaches of neighbouring utilities when developing MILs. In a reasonable timeframe, individual company's MILs should move towards an **AUC-adopted, common approach** to setting investment levels for Alberta utilities.

FortisAlberta submits that, if adopted by the AUC, these Principles have the advantage of providing a more concrete foundation on which to establish MILs and should be considered when establishing future MILs in Alberta.

4.0 HISTORICAL/CURRENT MILS & EMERGING TRENDS

In reviewing the basis for historical, current and recently proposed MILs, the Utilities discovered that each company has had a unique history in terms of both the original intent and basis for setting the MILs and subsequent proposed changes.

4.1 FortisAlberta

Cost Trends and the Shift towards Underground

During its stakeholder consultation processes in 2007 and 2009, FortisAlberta made available its distribution engineering/planning staff to discuss the changes that FortisAlberta has seen in distribution construction practices and the related costs over the years. This included presenting charts which showed the shift towards underground ("U/G") construction, by highlighting the significant and continual rise in kilometres of underground cable and number of single phase pad-mounted transformers installed over the last four decades.

It was also noted that new urban residential servicing is almost exclusively Underground Residential Development ("URD") and, since 1999, URD has been constructed using FortisAlberta's "turnkey" process. FortisAlberta has seen ongoing changes to construction practices over the years, including larger residential service entrances, higher quality (jacketed) secondary cables and better worksite safety practices. As a result, using present day costs as the basis for determination of investment levels seems like a fair, reasonable and transparent approach to FortisAlberta as it is more reflective of the costs that new connecting customers are experiencing.

Emerging Gap between Cost and Investment

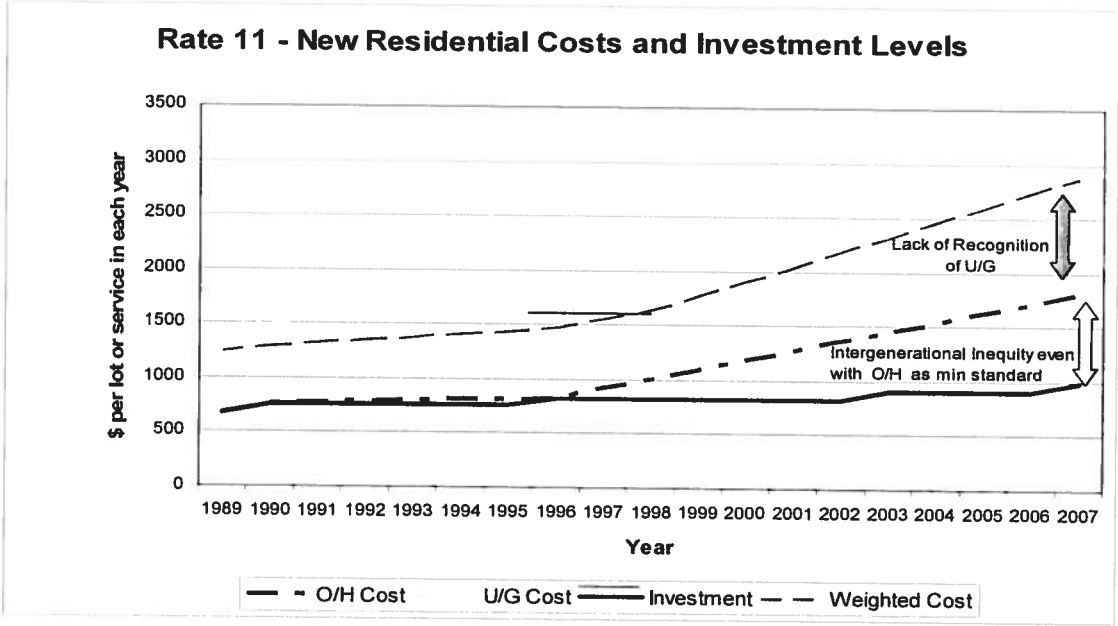
FortisAlberta's current 2009 MILs for the residential group is $1,200 per service. Prior to doing any further analysis or review with respect to the investment levels for residential services in its 2008/2009 DTA, FortisAlberta first did some research on the historical origin and basis for the current investment level. What was determined was that the current investment levels were originally set based on the average cost per lot for an urban overhead ("O/H") residential subdivision model, which was updated periodically. The following values indicate data points for some of these updates:

Pre-1990:	$670 / lot
1990:	$760 / lot
1996 filing:	$820 / lot

In the 2003 Phase II proceeding, the MIL was increased to $900 per service and further incremented by 10% in the 2007 Phase II proceeding to $990 per service. Further increases of 10% were negotiated for the years 2008/2009. FortisAlberta's MIL for residential is currently $1,200 per service. As discussed, investment has clearly not kept pace with the increase to average subdivision costs over the same period.

In its review of costs and investment levels for 2008/2009, FortisAlberta's analysis showed that for some rate classes, particularly residential and street lighting, investment had not kept pace with cost increases over the same period. That is, a gap between the average per lot costs to install a service within a residential subdivision and the corresponding investment from the utility had emerged. This divergence is revealed by referring to the chart below, which was presented in Appendix N of FortisAlberta's 2008/2009 DTA. The chart is intended to show, in a general way, how average costs per

residential service using underground ("U/G") construction (green dashed line) or overhead ("O/H") construction (blue dashed line) have risen since 1990, with the weighted average (red dashed line) based on the proportion of U/G to O/H services, also increasing over time.



In contrast, residential investment levels (black solid line) have increased approximately 30% from 1990 to 2007, whereas, average overhead residential subdivision costs have increased by over 120% over the same period. Further, the original methodology for the existing investment levels was based on overhead construction even though the majority of residential services are now installed as URD. This gap is resulting in intergenerational inequity in reverse. In effect, more customers are paying contributions and these contributions are growing, when compared to comparable service to customers

in the past. This intergenerational inequity is present even if O/H construction was retained as the standard for setting investment levels. The inequity and gap between investment and cost is amplified further when it is acknowledged that most services are now installed using underground construction practices.

FortisAlberta is also aware that there was a period in the mid to late 90s when there were two maximum investment levels for residential in place (on an interim basis):

1. $1,660 per service, based on a comparable underground (U/G) model (orange solid line), for two specific, higher density, urban communities; and

2. $820 per service (black solid line), based on the overhead (O/H) model, was retained for all other service areas.

During the final refiling process in 1999, the company reverted back to a single investment level of $820, given the fact that all residential customers throughout the service territory pay a single average rate. FortisAlberta does not propose, nor would recommend, that multiple investment levels for single customer group be pursued, yet in hindsight, it would have been more appropriate to move to the higher investment level at that time if a single level needed to be selected.

A similar disconnect exists for the costs and investment related to FortisAlberta street lighting. As a result, the findings and recommendations with respect to the residential and street lighting groups are similar.

On a go-forward basis, and to proactively address this gap, FortisAlberta had initially recommended a correction in 2008/2009 to get investment for these customer groups back in alignment with the corresponding cost levels. Further, FortisAlberta had noted that an ongoing cost-indexing mechanism would assist in ensuring that the investment function, once aligned, didn't diverge significantly from the moving cost function into the future.

4.2 Other Utilities

In ATCO Electric's 2009/2010 GTA (s.20, p.1), ATCO Electric provided background for the basis of its investment levels, and the emerging gap between costs and MILs, by stating:

> Prior to 1990, ATCO Electric's investment policy was based on the average capital cost to serve a customer. Since that point in time, ATCO Electric has set investment levels based on a comparison of costs to revenues. As approved in ATCO Electric's 2004 Distribution Tariff Application (Decision 2005-025), ATCO Electric's investment level methodology has been to link investment levels to the average embedded cost and then convert it to current replacement cost. While this method has resulted in ATCO Electric's investment model indicating marginal increases to some rate class investment levels, it has also resulted in decreases of investment levels for other rate classes in spite of increasing new extension costs.

ATCO Electric added that prior to the completion of the FortisAlberta consultation to have a common approach to derive MILs:

> ATCO Electric is proposing to increase its investment in new extensions to help address the impact of increasing new extension construction costs that customers are experiencing.

In its application, ATCO Electric also provided some data (s.20, Tables 1,2) illustrating how the investment levels for their rate classes had not kept pace with average costs, and

the intergenerational inequity that was developing as a result. Further, they provided a comparison of the currently approved MILs for the Utilities (s.20 Tables 3,4). Portions of these tables have been replicated below for ease of comparison.

Residential MIL Comparison of Neighboring Utilities:

Utility	Residential (Single Family Dwelling) ($/Site)
ATCO Electric	$980
FortisAlberta	2008: $1,090 2009: $1,200
EPC	100 amp service: $2,324 (1) 200 amp service: $4,024 (1)
EDTI	$1,050 (U/G)

Note: (1) 2008 non-standard residential investment rate obtained by AE from EPC.

Given that each utility has a different cost structure, the values in the above table cannot be compared straight across. However, in consultation discussions, it became evident that (1) URD construction was the de-facto standard for residential subdivisions, and (2) EPC was the only utility that had maintained its MILs in line with actual costs that were being experienced for residential URD.

EPC advised that like the other Utilities, its historical standard was overhead construction as well, but a 1974 City bylaw required all new residential servicing to be underground. Also, somewhere around 2000, EPC changed its MILs to fully invest in URD and overhead main feeders. Requests to bury main feeders are charged as contribution to the developer.

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In its 2008/2009 DTA, FortisAlberta proposed step increases to its residential and street lighting MILs to transition towards the current costs and correct the intergenerational inequity continues to emerge.

ATCO Electric's residential investment has been established over time based on average cost but not maintained in recent years. In their current DTA proceeding, ATCO advised that their average residential cost is $4,500 per service, and have proposed a step increase to transition towards MILs based on today's costs and to correct the same intergenerational inequity that FortisAlberta has seen.

EDTI advised that its current MILs for residential are likely based on historical ATCO levels and it has been awaiting the outcome of this common approach discussion before proposing any further changes to their residential MILs.

With respect to street lighting MILs, FortisAlberta's and ATCO Electric's approach has been similar in that the intent has historically been to invest based on the average cost of installation. However, like residential, the MILs have not kept pace with the installation costs. Due to municipal ownership of street lighting in EDTI and EPC service areas, there is generally no investment in local street lighting facilities.

Non-Residential MIL Comparison of Neighboring Utilities:

Utility	Small General Service	General Service/Industrial	Oilfield Service	Farm Service
ATCO Electric	$350/kW	$350/kW for the first 500 kW, $235 for additional kW	$510/kW	$395/kVA
FortisAlberta	2008: $5,000 plus $795/kW 2009: $5,275 plus $839/kW	2008: $5,000 plus $795/kW for the first 150 kW, $100/kW for additional kW 2009: $5,275 plus $839/kW for the first 150 kW, $106/kW for additional kW	2008: $5,000 plus $795/kW 2009: $5,275 plus $839/kW	2008: $5,000 plus $716/kVA 2009: $5,275 plus $755/kVA
EPC	First $10,000	Primary: $75/kVA Secondary: $250/kVA	Not applicable	Not applicable
EDTI	$225/kVA for the first 2,500 kVA, $100/kVA for additional kVA	$225/kVA for the first 2,500 kVA, $100/kVA for additional kVA	Not applicable	Not applicable

Once again, given that each utility has a different cost structure, the values in the above table cannot be compared straight across. However, in consultation discussions, FortisAlberta advised of its past approach which was to provide economically efficient price signals to new customers as they are connected to the interconnected transmission and distribution system. This was well articulated in Decision 2005-096 (p.43) related to the 2006 AESO tariff, where the Board reiterated its past position as follows:

> The Board considers that customer contributions are suitable in circumstances where service to a customer may impose costs on other customers for which they should not be responsible. An appropriate contribution policy therefore provides a suitable balance to an unlimited obligation to serve by imposing economic discipline on siting decisions. It transfers the economic burden of connection of new customers from the utility and its existing customers to the new customer. In

> other words, it exerts some of the discipline of the utility's economics on the economic decision-making of the customer. The Board considers that customer contributions should relate only to the local connection costs of the system expansion. The deep system costs of expansion are properly the responsibility of all customers, form part of the utility's revenue requirement and should be recovered from all customers through rates.

For many of the rate classes in FortisAlberta's service area, this principle has been satisfied by applying the "80/20 criteria". That is, setting the maximum investment function such that approximately 80% of customers would be fully covered by the MIL while the remaining 20% are only partially covered and accordingly, are assessed a customer contribution. It has been recognized during the stakeholder consultations that the "80/20 criteria" is not a principle itself, but rather it is a means, guideline or rule of thumb that has been historically applied to meeting the principles. Therefore throughout the remainder of this document, FortisAlberta will refer to it as the "80/20 rule".

This 80/20 rule is the origin of the existing FortisAlberta MIL's for its General Service, Oil & Gas and Farm groups. Application of the 80/20 rule was originally introduced in the early 1990s to preserve intergenerational equity with investment levels and contributions calculated on a more detailed case-by-case customer analysis prior to the 1990s. As a vertically integrated utility (both transmission & distribution), the introduction of the 80/20 rule and published MILs simplified and made more transparent the calculation of customer contributions, which was intended to make the contribution determination process more easily understood and accepted by customers.

FortisAlberta would note that the practice of publishing the MILs in its T&Cs has continued to date. However, the calculation of MILs associated with the 80/20 rule had not been reviewed until the 2008/2009 DTA. Further, the MIL price signal created by

applying 80/20 rule is currently being used by the AESO for transmission purposes. Perpetuating the 80/20 rule for distribution purposes effectively results in a common rationale being applied for transmission and distribution service to customers within the service area. This consistency with past levels and practice therefore minimizes the intergenerational inequity that may result otherwise.

ATCO Electric's investment has been reviewed extensively in the MIL Study filed in its 2009/2010 GTA (s.20). In that application, ATCO once again shows how MILs for non-residential investment have not kept pace with actual costs of installation, and how that is creating intergenerational inequity.

In the Utilities' working sessions, EDTI discussed recent changes in EDTI's T&C's in its 2007-2009 Phase II DTA. It also advised of some changes related to investment as negotiated in its 2007-2009 Phase I NSA with respect to servicing Underground Industrial Developments ("UID"). Specifically, EDTI advised that investment in Underground Industrial Developments would provide a rebate determined as 80% of the total installed cost of the underground distribution facilities installed to service raw industrial land, calculated by EDTI based on EDTI's costs. Although not a strict application of the 80/20 rule used by FortisAlberta (EDTI based the investment on costs rather than number of customers), it appears to be directionally consistent in attempting to satisfy the guiding principles that have been proposed.

With regard to non-residential investment, EPC advised of a presentation on its non-residential investment policy from an FBR information session held in July 2007. This included a statement that its Non-residential Investment Policy ("NRIP") is the outcome of a 2000 RJ Rudden Study. EPC's NRIP is "dollars based," aligned and comparable to

other Alberta utilities, is tied to providing basic infrastructure and recognizes the diversity in servicing requirements within rate classes. It also helped establish a framework in 2000 for EPC's current NRIP and recognized the need for periodic adjustments to the "dollars based" investment to account for inflationary increases. In Decision 2009-035, EPC received approval to apply an annual escalation to its NRIP, which is consistent with the guiding principles established through this common approach consultation.

5.0 COMMON METHODOLOGIES TO DERIVE TARGET MILS

5.1 Recommendations

After reviewing the historical/current MILs and recognizing the trends that are emerging, ATCO Electric, EDTI and FortisAlberta (three utilities) agreed that the following methodologies be used to set the Target MILs for each of the Utilities. Target MILs are essentially the MILs that the utility would propose to implement if it were not for a requirement to transition to those levels in order to meet other Guiding Principles. A set of three recommendations were developed for residential, lighting and non-residential respectively. The three utilities submit that these recommendations reflect the best fit with the Guiding Principles that have been proposed in Section 3.0, and are generally aligned with the original basis for setting MILs in much of Alberta.

1) **Target MILs for Residential Services should be set at a level based on the average cost per lot (or service) for Standard Underground Residential Development ("URD").**

- These costs should be calculated based on the average forecast costs that the utility would incur to provide servicing within the development area.

- The average forecast cost per lot calculation should be based on a consistent model or calculation methodology (for example, a real-life subdivision or recent actual $ per lot data) for the particular utility escalated to the respective test year(s).

- The residential developer or customer will be responsible for any costs incurred within the development area which exceed these MIL amounts for standard URD.

2) **Target MILs for Street Lighting Services should be set at a level based on the average local costs per fixture for a standard underground lighting installation.**

- These costs should be calculated based on the average forecast costs that the utility would incur to provide such service.

- The average forecast cost per fixture calculation should be based on a consistent model or calculation methodology (for example, a real-life subdivision or recent actual $ per fixture data) for the particular utility escalated to the respective test year(s).

- The lighting customer or developer will be responsible for any costs incurred which exceed these MIL amounts for standard lighting service. That is, Lighting customers that choose to request a higher standard of lighting which exhibit costs which exceed these MIL amounts will bear the incremental cost associated with that choice.

- Lighting customers that choose to own their own lighting fixtures and facilities downstream of the utility's service demarcation point will not be eligible for investment for those lighting facilities. It is recognized that the Utilities also have other miscellaneous lighting services such as yard, private and security lighting which will have to continue to be treated separately from street lighting.

3) **Target MILs for customer extensions in Non-Residential investment groups (or rate classes) should be derived based on satisfying the "80/20 Rule".**

- MILs will be set such that approximately 80% of customers would be fully covered by the MIL while the remaining 20% are only partially covered and accordingly, are assessed a customer contribution.

- These MILs should be calculated based on the costs that the utility would incur to provide service and be escalated to the respective test year(s).

- The derivation of the Target MIL should be consistently based on recent actual cost data for the particular utility, and to the extent practical should generally align with cost causation and the corresponding rate structure(s).

- The non-residential developer or customer will be responsible for any costs incurred which exceed these MIL amounts.

The three utilities recommend that, in concert with the Guiding Principles, these methodologies should be adopted by the AUC as a common approach to establishing future MILs in Alberta. Please refer to Attachment 1 for a summary of the comments received from the consultation participants with regard to these Common Methodologies to Derive Target MILs.

6.0 COMMON IMPLEMENTATION METHODOLOGIES

After establishing common methodologies for deriving Target MILs for each utility in Section 5.0, the next issue which needed to be addressed was determining how to transition to the Target MILs in a reasonable timeframe. This is often an area of concern for stakeholders. This requires a balanced and defined approach which recognizes that there is an emerging gap between investment and costs that requires correction. On the other hand, the transition to these Target MILs should not place undue upward pressure on rates.

6.1 Recommendations

The three utilities recommend that the following four implementation methodologies be used to transition to the Target MILs, and to ensure that they are kept current for each of the Utilities. These recommendations reflect the best fit with the Guiding Principles that have been proposed in Section 3.0, and set out a reasonable transition plan to move towards attaining a common basis for setting MILs in Alberta.

1) **For any particular rate class, the estimated percentage (%) rate impact directly attributable to a change in MILs for that rate class in any given year should not exceed 0.5 %.**

   - This will allow the determination of an appropriate timeframe (number of years) to arrive at Target MILs, restore intergenerational equity over time, and not place undue upward pressure on rates.

- This estimated rate impact should be calculated based on the both the DT (transmission and distribution) components and assume a full year (rather than mid-year) convention for rate base in order to show the longer term impact.

- This implementation recommendation is viewed as a reasonable guideline, which should still leave some flexibility for utilities to propose higher or lower, faster or slower, transitions if circumstances around particular rate classes warrant alternative treatment.

- This implementation recommendation will allow MILs to transition based on the Common Guiding Principles rather than defaulting to the less specific 10% limit on investment.

2) **Target MILs should be indexed annually to track inflationary factors and/or any changes to trends/standards of service.**

- Each utility should apply an inflation factor that is reflective of the utility's changing distribution service costs, or derived through a periodic study of its service costs and Target MILs.

- Auto-indexing MILs will assist in mitigating any regulatory lag effects.

3) **This Common Approach to MILs, if and as adopted by the AUC, would be applied in each of the Utilities' next DTAs, which will allow each utility's currently approved tariffs, test periods and MILs to run their course.**

4) **In order to minimize any cross-subsidization between a utilities' rate classes, any material changes to MILs, while transitioning to Target MILs, should be accompanied (either concurrently or soon after) with a Phase II tariff filing.**

The three utilities recommend that, in concert with the Guiding Principles, these methodologies should be adopted by the AUC as a common approach to transitioning to Target MILs in Alberta. Please refer to Attachment 1 for a summary of the comments received from the consultation participants with regard to these Common Implementation Methodologies.

PART II – FORTISALBERTA PROPOSED MILS FOR 2010/2011

Part II of this document sets out FortisAlberta's findings and proposed MILs for 2010/2011 based on the Common Approach discussed in Part I. This includes proposals that are in alignment with the Guiding Principles in Section 3.0, the Common Methodologies to Determine Target MILs in Section 5.0 and the Common Implementation Methodologies set out in Section 6.0.

Specifically, Common Implementation Methodology #3 states: **"This Common Approach to MILs, if and as adopted by the AUC, would be applied in each of the Utilities' next DTAs, which will allow each utility's currently approved tariffs, test periods and MILs to run their course."**

Next, Common Implementation Methodology #4 states: **"In order to minimize any cross-subsidization between a utilities' rate classes, any material changes to MILs, while transitioning to Target MILs, should be accompanied (either concurrently or soon after) with a Phase II tariff filing."**

Lastly, Common Implementation Methodology #2 states: "**Target MILs should be indexed annually to track inflationary factors and/or any changes to trends/standards of service.**"

FortisAlberta is making its common MIL proposals in this 2010/2011 DTA. Also, FortisAlberta is filing its Phase II component of the Application (Section 8 of the Application) concurrently with, and reflecting, its Phase I MIL proposals. As such,

FortisAlberta's findings and recommendations in the following Sections comply with each of these Common Implementation Methodology recommendations.

7.0 FINDINGS & RECOMMENDATIONS

7.1 Residential & Street Lighting

Residential Rate 11

In Section 5.0, Common Methodologies to Determine Target MILs, Recommendation #1 sets out the means by which residential Target MILs should be set: **"Target MILs for Residential Services should be set at a level based on the average cost per lot (or service) for Standard Underground Residential Development ("URD")."**

The original basis for setting residential investment levels was set to provide an investment equal to the average cost per service within the subdivision area. This is an appropriate approach given that customers within a residential subdivision, who exhibit average costs per service, would receive offsetting investment for such costs. However such customers would still be exposed to paying a contribution for any subdivision costs in excess of average, and for the cost of the primary distribution facilities required to extend service from the existing distribution grid to the subdivision area. Therefore, this approach continues to impart strong economic siting discipline through an investment price signal to these end-customers, or to the subdivision developers that may represent them.

As discussed during the consultation, the prevalence of new U/G residential services installed in any given year has increased substantially over the decades to account for the

majority of new services today. To stay consistent with the original basis for determining residential MILs and the Common Approach, FortisAlberta proposes that U/G construction and the associated higher costs be reflected in the MILs. A Target MIL based on the average forecast cost per URD lot will:

- Eliminate intergenerational inequity caused by investment levels not keeping pace with the original O/H cost basis;
- Recognize the shift from O/H to U/G construction; and
- Continue to provide a strong economic signal and siting discipline for residential customers/developers as they are still required to pay the primary line extension costs to reach the service / development's area or any per lot subdivision costs in excess of average.

To determine a residential MIL based on this approach, in 2007, FortisAlberta selected a real case subdivision within its service area, one that was constructed using new U/G, or URD, construction practices. This development includes both residential and street lighting services. FortisAlberta then proceeded to estimate the costs associated the subdivision models in today's dollars, while separating these costs into residential and street lighting cost categories. The total costs associated with residential and street lighting service was then divided through by the number of residential lots or street light fixtures respectively. This resulted in the following per service costs, expressed in 2010 dollars:

URD Residential & Lighting Subdivision Investment Model	
Average Residential Subdivision Cost:	$2,525 per lot
Average Street Lighting Cost:	$3,720 per fixture

In accordance with the common approach, these MILs would represent the Target MILs for 2010. The subdivision investment model includes cost estimations, maps and characteristics, and was circulated as part of the consultation process in 2007. FortisAlberta updated this model for this 2010/2011 DTA and intends to use the model in future updates of per service costs in future MIL reviews. This will allow a consistent basis and methodology for monitoring and adjusting investment levels to track cost levels over time.

Nonetheless, FortisAlberta acknowledges its stakeholders' suggestions that the Company should consider a phase-in approach or gradualism if investment levels need to be realigned with current customer extension costs. Also, there were concerns with making an abrupt change or creating "rate shock" due to a change in MILs. Common Implementation Methodology #1 responds to this concern by creating a rate impact limit that allow the determination of an appropriate timeframe (number of years) to arrive at Target MILs, restore intergenerational equity over time, and not place undue upward pressure on rates: "**For any particular rate class, the estimated percentage (%) rate impact directly attributable to a change in MILs for that rate class in any given year should not exceed 0.5 %.**"

Given this constraint, FortisAlberta proposes a two year transition to the residential Target MIL. The rate impact to Rate 11 due to an increase in residential MILs in either 2010 or 2011 would not exceed 0.5% in each of those years.

Further, it is recognized that the target MILs should be simultaneously indexed in 2011 and beyond, to keep pace with the ongoing inflationary cost pressures (in accordance

with Guiding Principle #5). Otherwise, it will be difficult for the gap between adequate investment levels and customer extension costs to be closed.

Therefore, FortisAlberta proposes that a suitable balance between making the required adjustment in a phased-in, more gradual manner and making a deliberate effort to close the gap can be achieved by increasing residential investment levels in two (2) annual steps, with these steps taking place during the 2010 and 2011 test period.

The determination of proposed Rate 11 MILs for 2010 and 2011 are as follows:

For the first step in 2010, FortisAlberta would propose that the MIL be calculated by incrementing the existing MIL by 50% of the difference between the existing and 2010 target level:

$1,200 + [$2,525 - $1,200] * 1/2 = $1,862 per service, and if rounding is applied:

$1,860 per service for the 2010 Proposed MIL - Rate 11

Using a similar calculation for the second step in 2011, by applying the 2.7% escalation factor for 2011 results in:

$1,860 + [$2,525*(1.027) - $1,860] *2/2 = $2,593 per service, and if rounding is applied:

$2,590 per service for the 2011 Proposed MIL - Rate 11

If approved, FortisAlberta would plan to apply the common methodologies in future years.

Street Lighting Rate 31

In Section 5.0, Common Methodologies to Determine Target MILs, Recommendation #2 sets out the means by which street lighting Target MILs should be set: **"Target MILs for Street Lighting Services should be set at a level based on the average local costs per fixture for a standard underground lighting installation."**

The existing 2009 MIL for street lighting is $1,400 per fixture. FortisAlberta has determined that street lighting exhibits the same issue as residential investment levels in that the original basis for calculating MILs for street lighting were based on an old O/H construction standard. This involved setting the investment level for street lighting to fund the equivalent cost of a 100W luminaire on a wood pole with some allowance for a nominal amount of local secondary conductor.

During stakeholder consultations, this was identified as a deficiency with existing MILs recognizing that new street light installations typically involve a non-wood (steel) davit structure and in the case of URD, most, if not all of the conductor is U/G cable. On a per installation basis, the costs associated with street lighting are significantly higher than the old O/H investment standard. Consequently, FortisAlberta proposes to use the same common approach for determination and phase-in of Rate 31 investment as it has proposed for Rate 11 residential services. This is deemed to provide adequate investment for each fixture while ensuring that lighting customers that choose a higher standard of lighting (for example, decorative fixtures) will bear the incremental cost associated with

that choice. From the URD subdivision investment model, the Target MIL for 2010 is $3,720 per fixture.

Given the rate impact constraint, FortisAlberta proposes a five year transition to the street lighting Target MIL. The rate impact to Rate 31 due to an increase in street lighting MILs in either 2010 or 2011 would not exceed 0.5% in each of those years.

For 2010, the calculation is as follows:

$1,400 + [$3,720 - $1,400] * 1/5 = $1,864 per fixture, and if rounding is applied:

$1,865 per fixture for the 2010 Proposed MIL - Rate 31

Using a similar calculation for the second step in 2011, by applying the 2.7% escalation factor for 2011 results in:

$1,865 + [$3,720*(1.027) - $1,865] * 1/4 = $2,353 per fixture, and if rounding is applied:

$2,350 per fixture for the 2011 Proposed MIL - Rate 31

If approved, FortisAlberta would plan to apply the common methodologies in future years.

For Yard Lighting (Rate 38), FortisAlberta proposes to retain the 2009 MIL of $750 per fixture in 2010 and escalate by 2.7% in 2011 to arrive at a 2011 MIL of $770 per fixture.

7.2 Farm, Irrigation, Small General Service, Oil & Gas & General Service

In Section 5.0, Common Methodologies to Determine Target MILs, Recommendation #3 sets out means by which non-residential Target MILs should be set: **"Target MILs for customer extensions in Non-Residential investment groups (or rate classes) should be derived based on satisfying the "80/20 Rule."**

In order to meet the stated Common Guiding Principles and Methodologies, FortisAlberta proposes to continue to apply the 80/20 rule to determine MILs for this group of customers. In 2007, this group of customers was analyzed together in order to maintain the historically accepted commonality in their MILs and intergenerational equity. Another benefit of retaining the commonality is it allows FortisAlberta relatively seamless administration of changes to a customer's service, especially in cases where contract buy-downs and buy-ups are required.

In the 2008/2009 DTA *Appendix N - Review of MILs,* FortisAlberta provided the following analysis in its study. It has been replicated below because it has been determined to remain valid in light of additional of more recent cost data. Further, this remains the basis for FortisAlberta currently approved 2009 MILs for these customer groups.

Project cost data, which does not include system and optional facilities costs, for 2006 and part of 2007, was compiled for this group of customers, then escalated to 2008 dollars. At this stage it was determined that, under the current approved MILs, approximately 55% of these customers would not have to pay a contribution toward their project (well short of the 80/20 rule). Single equation regressions were run for those customers with an expected peak demand up to 150 kW, then for those with an expected peak demand above 150 kW and up to 2,000 kW (independent variable = expected peak demand). This was done in order to remain consistent with FortisAlberta's historically approved practice of using a steeper investment slope for expected peak demands up to 150 kW, and a lesser slope for expected peak demands thereafter.

The regression results for the two peak demand segments are as follows:

Expected Peak Demand up to 150 kW	Y = 8,477 + 329(X)
Expected Peak Demand over 150 kW to 2,000 kW	Y = 47,320 + 100(X)

However, the 80/20 rule was not met by simply setting the MIL as a combination of the two functions without some kind of adjustment. Further, the intercept of $8,477 looked to be excessive when the average project cost of smaller customers was examined. An intercept, or starting investment amount, does make sense when one considers that these customers are subject to a monthly minimum charge according to FortisAlberta's tariff, and that most new services are subject to certain construction costs regardless of size. Upon analysis, it was determined that an appropriate investment starting point, or flat amount regardless of expected peak demand, is $5,000. This, and the pursuit of the 80/20 rule, led to the application of a multiplier of 2.415 to the peak demand coefficient of 329, which results in $795 per kW for the first 150 kW of expected peak demand. For the second segment, or kW of peak demand greater then 150 kW, the slope of 100(X) is used, but in order for the historically set and approved investment level break at 150 kW to be sustained, the intercept is ignored. It is important to keep the 150 kW segment break in place in order to refrain from disrupting the administration of changes to service, such as contract buy-downs and to maintain intergenerational equity to the extent possible. The 80/20 rule is met by the following equations:

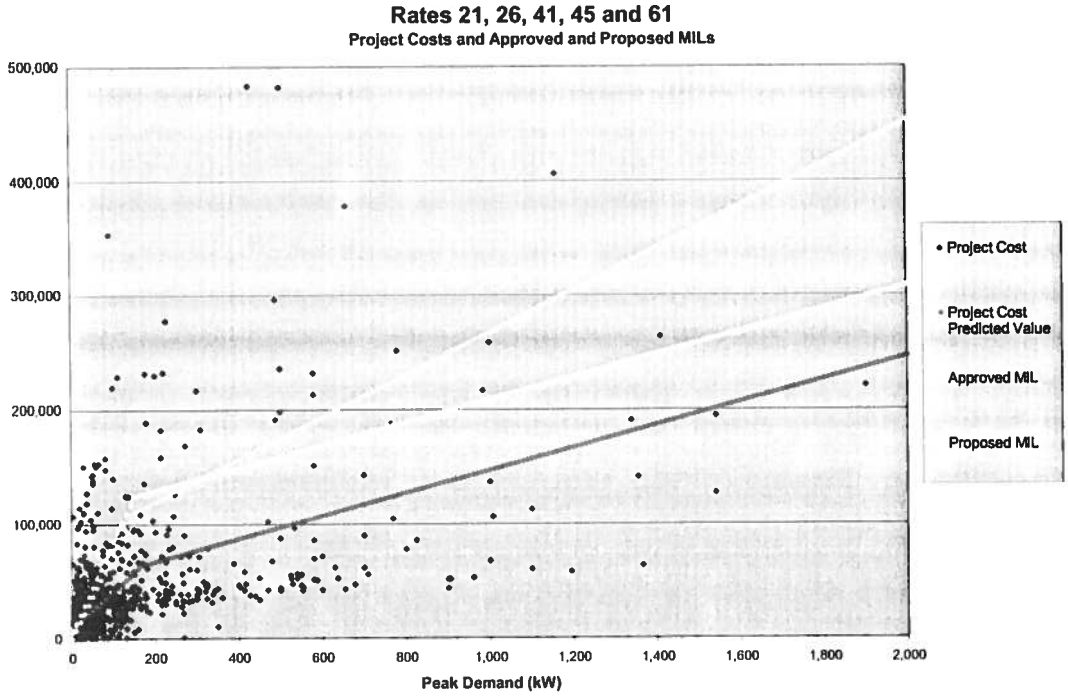
If expected peak demand is less than or equal to150 kW Y = 5,000 + 795(X)
If expected peak demand is greater than 150 kW Y = 5,000 + 795(150) + 100(X)

Hence, the proposed (and subsequently approved) 2008 MILs for this group of customers were as follows:

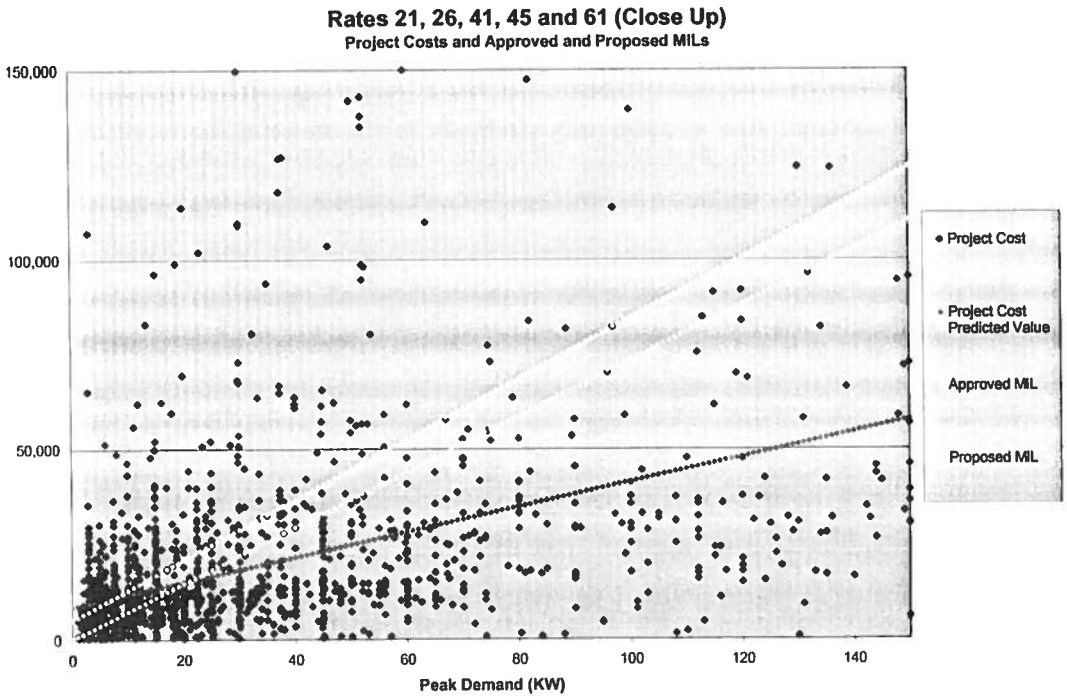
	Proposed 2008
Base Investment	$5,000
For each of the first 150 kW of expected peak demand	$795
For each kW above 150 kW, up to 2,000 kW	$100

The chart immediately below contains the project cost data points for the data analyzed in the 2007 review, the cost functions of the data (the two lines are cut off at the point where they intersect), and the approved and proposed MILs at that time. The subsequent chart was simply a close-up view of the same, to provide a clearer picture of the segment up to 150 kW:

FORTIS ALBERTA	2010/2011 Distribution Tariff Application Section 9 - Appendix O Common Approach to Maximum Investment Levels



FORTIS ALBERTA	2010/2011 Distribution Tariff Application Section 9 - Appendix O Common Approach to Maximum Investment Levels



As presented at the March 2009 Stakeholder Session on Common Approach to MILs, FortisAlberta advised that it had done some additional analysis by updating the actual service extension cost data and applying a cost escalation to 2010 and 2011 dollars. It has been determined that if the existing approved 2009 MILs for these rate classes are applied to this cost data (in 2010 dollars), the 80/20 rule is satisfied. As a result FortisAlberta proposes to retain its 2009 MILs for these customer groups for 2010.

Further, FortisAlberta proposes to reflect inflationary pressures by applying the 2.7% escalation factor to determine it Proposed 2011 MILs for these customer groups.

7.3 Large General Service

Harmonization:

FortisAlberta continues to seek improvements to the ongoing harmonization effort to ensure a smooth transition between transmission and distribution tariffs as per Directive 22 of Decision 2005-096 and as a means to determine a common approach to all wires investment. To ensure the orderly and efficient development of the electric system, FortisAlberta's view is that while investment levels can support this objective, the prospect that the AESO and distribution company tariffs investment structures and levels can effect proper transmission and distribution system planning by themselves is likely not achievable. Rather, it is more important to ensure that the setting of MILs does not impede coordinated transmission and distribution system planning by creating price signals that are counter to such an outcome. In other words, it is in all customers' interests that the AESO, transmission and distribution wires companies arrive at the best engineering and economically efficient solutions to meet end-use customers' load requirements in the long term - whether that involves transmission, distribution or an appropriate blend. The approach to investment should be conducive, or at least not counter, to that goal.

One FortisAlberta customer group where this can often become an issue is for Rate 63 Large General Service. For distribution connected customers greater than 2 MW, Rate 63 includes a distance (from the Point of Delivery ("POD")) component in the rate structure, which has the effect of sending a distribution cost-based price signal to the connecting customer.

FortisAlberta recognized in 2007 that, since 2003, the distribution investment levels for this rate class were very low which is causing some of these large customers to request transmission service or seek alternative supply for their energy needs, even if that may not be the best solution. FortisAlberta has determined that even with changes to increase Rate 63 Distribution MILs in 2008/2009, many of these customers are still being required to pay distribution contributions under the existing Rate 63 MILs. The ratio of non-contributors to contributors is still lower than the 80/20 rule target that was historically applied in the bundled world or what the AESO applies in its transmission tariff. Accordingly, FortisAlberta would propose that an improvement to re-harmonize transmission and distribution investment would be to ensure that Rate 63 distribution MILs should be set using a similar approach to the AESO levels, i.e. based on the 80/20 rule.

Also, in accordance with FortisAlberta existing T&Cs, these >2MW distribution customers can also be assessed a flow-through of their pro-rata portion of any transmission contributions that are triggered (similar to Rate 65 transmission connected customers). Later in this section, FortisAlberta proposes to revise its approach of allocating transmission contributions for Rate 63 customers (or customers greater than 2000 kW) upfront and to revert to treating these customers similarly and consistently with all other distribution connected loads.

Distribution Investment

For the distribution component of Rate 63 MILs, FortisAlberta proposes to retain the existing investment structure, which includes both a distance component (i.e. dollars per metre of customer extension) of the MIL and a kW of demand component. Further, in response to Rate 63 customer concerns around not currently meeting Common Approach

Guiding Principle #8 (i.e. investment structure alignment with the rate structure), FortisAlberta proposes to remove the 7,000 metre cap on metres of customer extension.

In order to determine the average base cost for the peak demand and distance components of the MIL, regression analysis was performed on a group of Large General Services. The observations are new service builds and existing service upgrades that occurred during 2003 to the end of 2008. The historical base costs were adjusted for inflation to 2010 dollars.

Whereas the analysis for the 2008/09 NSA was completed using 20 new Rate 63 services, this updated analysis includes 63 new services and service upgrades. The increase in number of observation is due to 1) the inclusion of service upgrades (i.e. service size increases), 2) new services built since the last analysis, and 3) FortisAlberta was able to extract additional data since the last analysis. However, the new extract did not allow for the break-out of on-site (kW) and off-site (m) historical base costs. Hence, separate regressions were not run for each.

The dependent variable with the regression was inflation-adjusted base cost, which excluded costs associated non-standard facilities. The independent variables were new peak operating demand (kW) and new metres of extension (m). The regression produced the following equation:

$$Y = 0 + 93.4(kW) + 106.7(m)$$

The 80/20 rule is not met when the above is applied to the historical driver variables. Rather, 50% of the projects would require a contribution from the customer. However, on a cost rather than customer count basis, the above covers roughly 80% of the sum of

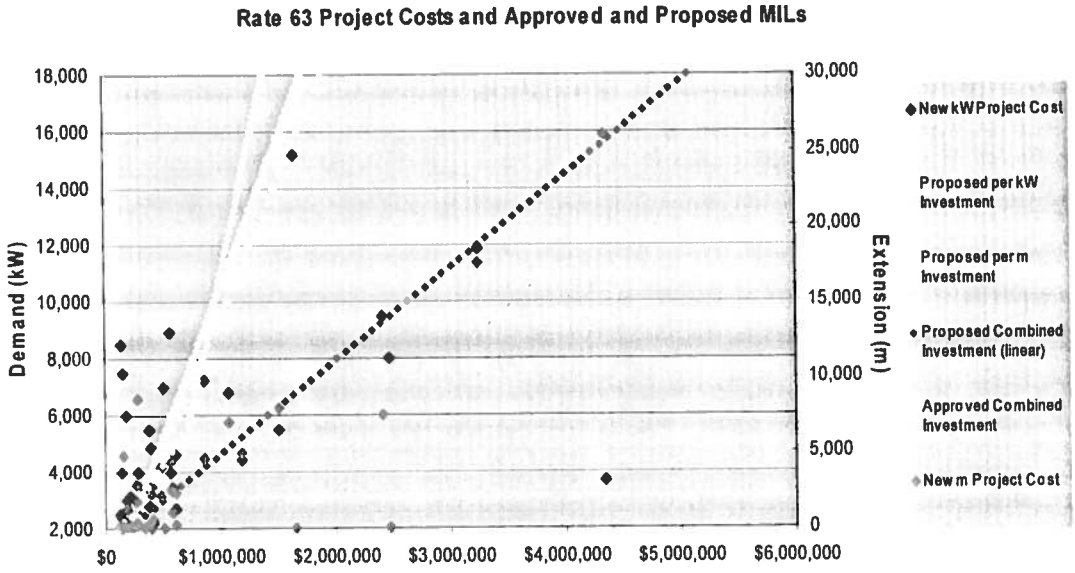
project costs. Given the relatively small number of observations, as well as the wide ranges in service size and required extension, FortisAlberta considers that it is appropriate to consider large industrial services on this basis.

As a result of the above, FortisAlberta proposes that the appropriate MIL for Rate 63 customers is as follows:

	Approved 2009	Proposed 2010	Proposed 2011
For each kW of expected peak demand	53	95	98
For each metre of dedicated extension	60	105	108

To graphically illustrate the analysis, the chart below contains plotted historical project costs separately for costs associated with kW of new operating demand and metres of new extension. As well, the approved and proposed MIL's are plotted:

FORTIS ALBERTA	2010/2011 Distribution Tariff Application Section 9 - Appendix O Common Approach to Maximum Investment Levels



The following table illustrates the total impact of the proposed changes to the MIL for Rate 63 customers:

Maximum Available Investment Under Approved MIL								
	0.5km	1km	2km	3km	5km	7.5km	10km	15km
2 MW	$136,000	$166,000	$226,000	$286,000	$406,000	$526,000	$526,000	$526,000
5 MW	$295,000	$325,000	$385,000	$445,000	$565,000	$685,000	$685,000	$685,000
10 MW	$560,000	$590,000	$650,000	$710,000	$830,000	$950,000	$950,000	$950,000
Maximum Available Investment Under Proposed MIL								
	0.5km	1km	2km	3km	5km	7.5km	10km	15km
2 MW	$242,500	$295,000	$400,000	$505,000	$715,000	$977,500	$1,240,000	$1,765,000
5 MW	$527,500	$580,000	$685,000	$790,000	$1,000,000	$1,262,500	$1,525,000	$2,050,000
10 MW	$1,002,500	$1,055,000	$1,160,000	$1,265,000	$1,475,000	$1,737,500	$2,000,000	$2,525,000

Transmission Investment

Presently, Clause 7.2.2 of FortisAlberta's Customer T&Cs has provisions for FortisAlberta to levy or refund (flow-through), to distribution-connected loads greater than 2000 kW (i.e. generally Rate 63), a pro-rata portion of any Transmission Contributions paid by FortisAlberta to the AESO for new or expanded Points of Delivery ("PODs"). This provision was proposed and approved in FortisAlberta's 2003 Phase II proceeding as a means to create a pricing signal, reflecting transmission cost causation to individual new large loads coming on to the system. However, in recent efforts to apply this provision, it has become clear to FortisAlberta that:

- The original objective may not be achieved due to potential unfairness to the distribution connected customer(s) caused by factors outside of their control;
- The application of the provision can create potential uncertainty and dissatisfaction to the connecting customer(s); and
- At best, the current approach, which can involve the AESO, FortisAlberta, the TFO and multiple customers, can create high administrative complexity and burden which may be prove to be unworkable.

Prior to industry restructuring, distribution connected loads were generally not assessed a transmission contribution. That is, there was not a defined transmission / distribution demarcation point for purposes of investment policy and the investment policy was generally applied at the distribution level. Further, the cost of transmission system development for distribution connected loads was generally deemed to be a system cost. Further, it has only been in the last few years that more frequent and larger transmission contributions have been paid by distribution companies to the AESO, due to heightened

transmission development and changes in accordance with the AESO tariff investment policy (less available transmission investment).

To put this in broader context, one of FortisAlberta's duties as a distribution wire owner is to arrange for system access service on behalf of all of its customers. While Rate 65 transmission connected customers have a dedicated POD for which they have directly assignable (mirrored) AESO contracts, contributions and tariff charges, all other distribution connected customers share PODs. This includes Rate 63 customers or customers/developments greater than 2000 kW. As a result, when load growth occurs in a particular area, FortisAlberta works with the AESO, TFOs and customers to arrange for new transmission facilities for that particular area. However, the addition of the large distribution connected loads (>2000 kW) and load growth related to the mass market customers may creep or be staged up or down at different times, even though the transmission facilities must be sized and contracted for at some initial level. These timing differences can cause controversy in how much of the initial transmission contribution should be assigned to the Rate 63 customer(s) versus the pro-rata amount which FortisAlberta funds for the aggregated smaller customer loads. As new Rate 63 customers or mass market load increases, there is the potential for refunds of transmission contributions from the AESO, which must also be reallocated among the customer loads. The timing of this re-contracting or refunding of previously paid AESO contributions is not a well established process. Therefore there is further customer uncertainty on when these contributions would be processed.

Another variable factor that arises is that when new load is being added to the system, FortisAlberta may reconfigure or rebalance the customer loads on the various feeders downstream of new and existing PODs. This can result in large Rate 63 customers being

switched to a different POD which may or may not have a transmission contribution associated with it. It is unclear to FortisAlberta how these situations can be fairly administered, especially when the customer could be financially impacted as a result of decisions FortisAlberta or the AESO has made for planning and operational purposes.

As such, FortisAlberta is proposing to revise its approach of allocating transmission contributions for Rate 63 customers (or customers greater than 2000 kW) upfront and to revert to treating these customers similarly and consistently with all other distribution connected loads. That is, FortisAlberta will arrange standard transmission service for all distribution connected loads and pay the contributions to the AESO. The costs associated with these AESO contributions would then be allocated to all distribution rate classes based on an appropriate allocator and recovered through ongoing rates in cost allocation/rate design.

That being said, it is still important to manage the risk associated with large customer load additions in which transmission upgrades and contributions are required. Therefore, during construction and until the large customer is taking service under an Electric Service Agreement ("ESA"), FortisAlberta proposes that it must continue to have the ability to enter into Commitment Agreements with, or require security acceptable to FortisAlberta from such Customers. This would mitigate risks associated with any Cancellation Costs or customer load that does not materialize. This is currently provided for in Section 4.2 of the existing Customer Terms & Conditions.

In addition, FortisAlberta submits that there may still be instances when it would be appropriate to charge a Rate 63 Customer (or customers greater than 2000 kW) a pro-rata share of any Transmission Contributions paid by FortisAlberta to the AESO for new or

expanded Points of Delivery. This may be required when the expansion is associated with a Temporary Service Customer, Optional Transmission Facilities or if the large customer requests transmission facilities in excess of what FortisAlberta would otherwise request, arrange for, or be provided from the AESO. Given the vast array of system development scenarios that can arise, FortisAlberta proposes to address such investment and the associated Transmission Customer Contributions, if required, on a case by case basis. FortisAlberta is investigating an appropriate and consistent means to determine what would constitute Optional Transmission Facilities for Rate 63 (or > 2000 kW) loads. This may include development of additional policies to limit the distance of transmission line FortisAlberta would invest in on behalf of large customers triggering transmission upgrades.

Lastly, if the Commission were to approve this proposal, FortisAlberta would recommend refunding the AESO contributions paid by such customers in recent years in accordance with the above. This would aid in ensuring intergenerational equity among all Rate 63 customers.

7.4 Transmission Connected Service

For Rate 65 Transmission Connected Services (which is equivalent to the AESO POD), FortisAlberta proposes to continue to apply the customer contribution policy as dictated by the AESO's Terms and Conditions of Service.

8.0 PROPOSED 2010 MAXIMUM INVESTMENT LEVELS

The following tables provide the comprehensive view of the changes to FortisAlberta's investment levels proposed herein for 2010. While the first table simply provides the MILs for all rate classes, the subsequent table provides the investment levels by investment term for all but residential and lighting customers. Note that the investment term, which is defined in FortisAlberta's Customer Terms and Conditions, does not apply to residential and lighting services.

	Approved 2009 MILs	Proposed 2010 MILs
Residential	$1,200 per service	$1,860 per service
FortisAlberta Farm	$5,275, plus $755 per kVA of peak demand	$5,275, plus $755 per kVA of peak demand
Irrigation	$5,275, plus $839 per kW of peak demand	$5,275, plus $839 per kW of peak demand
Yard Lighting	$750 per fixture	$750 per fixture
Street Lighting	$1,400 per fixture	$1,865 per fixture
Small General Service	$5,275, plus $839 per kW of peak demand	$5,275, plus $839 per kW of peak demand
Oil & Gas Service	$5,275, plus $839 per kW of peak demand $1,500 per meter for existing unmetered service conversion to metered service	$5,275, plus $839 per kW of peak demand $1,500 per meter for existing unmetered service conversion to metered service
General Service	$5,275, plus $839 per kW for the first 150 kW, plus $106 per kW of additional kW, of peak demand	$5,275, plus $839 per kW for the first 150 kW, plus $106 per kW of additional kW, of peak demand

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	Approved 2009 MILs	Proposed 2010 MILs
Large General Service	$53 per kW of peak demand, plus $60 per metre of Customer extension (up to 7000 m)	$95 per kW of peak demand, plus $105 per metre of Customer extension

	All Customers, except Large General Service	FortisAlberta Farm	FortisAlberta Irrigation	Small General Service, Oil & Gas, and General Service	General Service	Large General Service	
Investment Term (Years)	Base Investment	Base Investment, plus for each kVA of Peak Demand	Base Investment, plus for each kW of Peak Demand	Base Investment, plus for the first 150 kW of Peak Demand	Base Investment, plus for each Additional kW of Peak Demand	For each kW of Peak Demand	For each metre of Customer Extension
1	$0	$0	$0	$0	$0	$0	$0
2	$1,047	$150	$167	$167	$21	$19	$21
3	$1,520	$218	$242	$242	$31	$27	$30
4	$1,962	$281	$312	$312	$39	$35	$39
5	$2,375	$340	$378	$378	$48	$43	$47
6	$2,761	$395	$439	$439	$55	$50	$55
7	$3,151	$447	$496	$496	$63	$56	$62
8	$3,458	$495	$550	$550	$69	$62	$69
9	$3,773	$540	$600	$600	$76	$68	$75
10	$4,068	$582	$647	$647	$82	$73	$81
11	$4,343	$622	$691	$691	$87	$78	$86
12	$4,600	$658	$732	$732	$92	$83	$92
13	$4,840	$693	$770	$770	$97	$87	$96
14	$5,065	$725	$806	$806	$102	$91	$101
15	$5,275	$755	$839	$839	$106	$95	$105

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9.0 PROPOSED 2011 MAXIMUM INVESTMENT LEVELS

For 2011, the following tables provide the comprehensive view of the changes to FortisAlberta's investment levels proposed herein for 2011.

	Proposed 2010 MIL	Proposed 2011 MIL
Residential	$1,860 per service	$2,590 per service
FortisAlberta Farm	$5,275, plus $755 per kVA of peak demand	$5,415, plus $775 per kVA of peak demand
Irrigation	$5,275, plus $839 per kW of peak demand	$5,415, plus $860 per kW of peak demand
Yard Lighting	$750 per fixture	$770 per fixture
Street Lighting	$1,865 per fixture	$2,350 per fixture
Small General Service	$5,275, plus $839 per kW of peak demand	$5,415, plus $860 per kW of peak demand
Oil & Gas Service	$5,275, plus $839 per kW of peak demand FortisAlberta invests as required per unmetered to metered service conversion program	$5,415, plus $860 per kW of peak demand FortisAlberta invests as required per unmetered to metered service conversion program
General Service	$5,275, plus $839 per kW for the first 150 kW, plus $106 per kW of additional kW, of peak demand	$5,415, plus $860 per kW for the first 150 kW, plus $110 per kW of additional kW, of peak demand
Large General Service	$95 per kW of peak demand, plus $105 per metre of Customer extension	$98 per kW of peak demand, plus $108 per metre of Customer extension

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	All Customers, except Large General Service	FortisAlberta Farm	FortisAlberta Irrigation	Small General Service, Oil & Gas, and General Service	General Service	Large General Service	
Investment Term (Years)	Base Investment	Base Investment, plus for each kVA of Peak Demand	Base Investment, plus for each kW of Peak Demand	Base Investment, plus for the first 150 kW of Peak Demand	Base Investment, plus for each Additional kW of Peak Demand	For each kW of Peak Demand	For each metre of Customer Extension
1	$0	$0	$0	$0	$0	$0	$0
2	$1,075	$154	$171	$171	$22	$19	$21
3	$1,560	$223	$248	$248	$32	$28	$31
4	$2,014	$288	$320	$320	$41	$36	$40
5	$2,438	$349	$387	$387	$50	$44	$49
6	$2,834	$406	$450	$450	$58	$51	$57
7	$3,204	$459	$509	$509	$65	$58	$64
8	$3,550	$508	$564	$564	$72	$64	$71
9	$3,874	$554	$615	$615	$79	$70	$77
10	$4,176	$598	$663	$663	$85	$76	$83
11	$4,458	$638	$708	$708	$91	$81	$89
12	$4,712	$676	$750	$750	$96	$85	$94
13	$4,969	$711	$789	$789	$101	$90	$99
14	$5,200	$744	$826	$826	$106	$94	$104
15	$5,415	$775	$860	$860	$110	$98	$108

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ATTACHMENT 1 - CONSOLIDATED COMMENT MATRIX

Common Approach to MILs Stakeholder Comment Matrix

In response to the Utilities Recommendations discussed at the March 16th Stakeholder Input Session, Stakeholders were invited to provide written comments by April 9, 2009. Stakeholders were encouraged to comment on any or all issues. Comments were not considered to be confidential but were without prejudice.

Stakeholder Name: All Parties submitted comments - consolidated and summarized by FortisAlberta

Item	Recommendation	Stakeholder Comments
Guiding Principle 1	MILs should be set to achieve a **reasonable balance** of what an individual customer pays upfront through a customer contribution versus what all customers in a particular rate class pay through ongoing average rates. In other words, new customers should receive a fair and sufficient level of investment such that the majority of customers do not pay contributions for connecting, while still ensuring that existing customers are not unduly burdened by the cost of such new services.	AE, EPC, EDTI & FAI support this principle. EPC: Recommend removing "average" from "average rates".

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Item	Recommendation	Stakeholder Comments
Guiding Principle 2	MILs should provide **economic discipline** and price signals to new customers as they are connected to the interconnected transmission and distribution system, and these levels should be aligned with encouraging the **best long term economic and technical solution** to meet standard service requirements.	AE, EPC, EDTI & FAI support this principle.
Guiding Principle 3	The maximum amounts that the company invests in a new extension on behalf of all customers should consider the expected **longevity or any other risks** associated with the new service.	AE, EPC, EDTI & FAI support this principle.
Guiding Principle 4	The **current cost** to connect new customers is the appropriate starting point for establishing MILs.	AE, EPC, EDTI & FAI support this principle.
Guiding Principle 5	Setting of MILs needs to respect each **utility's standards of service**, while recognizing that these standards and the associated costs will **change over time.**	AE, EPC, EDTI & FAI support this principle.
Guiding Principle 6	Changes to MILs should balance the need to attain the target MILs over a **reasonable timeframe**, while ensuring there is **not undue upward pressure on tariff rates.**	AE, EPC, EDTI & FAI support this principle.

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Item	Recommendation	Stakeholder Comments
Guiding Principle 7	Adjustments to MILs should consider **minimizing intergenerational inequity and cross-subsidy**, whereby the portion of the cost of an extension that the company invests in should be in similar proportion with previously established investment levels. Both new and existing customers should be treated similarly to the extent possible and should see a similar price signal when the system is or was extended to provide service.	AE, EPC, EDTI & FAI support this principle. EPC: Suggest deleting all material after the comma in line 2. This information is an example of an application of the principle. There may be a number of examples where intergenerational inequity or cross subsidy needs to be considered.
Guiding Principle 8	To the extent practical, the structure of MILs (ex. fixed dollar amount, or $/unit) should generally align with **cost causation** and the rate structure which is applied to the customer.	AE, EPC, EDTI & FAI support this principle.
Guiding Principle 9	MILs should be **simple** to administer and applied in a **consistent and transparent** manner.	AE, EPC, EDTI & FAI support this principle.
Guiding Principle 10	Utilities should take into consideration the approaches of neighbouring utilities when developing MILs. In a reasonable timeframe, individual company's MILs should move towards an **AUC-adopted, common approach** to setting investment levels for Alberta utilities.	AE, EDTI & FAI support this principle. EPC: Cannot support Guiding Principle 10 as written. EPC supports an aligned approach which would reflect any AUC-adopted principles, but each utility should determine what approaches are applicable to their own service territory. "Reasonable timeframe" is vague. A "reasonable timeframe" should be defined more specifically using language similar to "Implementation 3" below.

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Item	Recommendation	Stakeholder Comments
Target MIL 1	**Target MILs for Residential Services** should be set at a level based on the average cost per lot (or service) for Standard Underground Residential Development ("URD").	AE, EDTI & FAI generally support the proposed target MILs for Residential Services. EPC does not support common Target MIL or Implementation items that would apply to all utilities. The "Common Approach" that Fortis' was directed to complete should entail creating the Guiding Principles such as the ones listed above, but should not include the specifics that are listed below (the Targets and Implementations). This section should be completed by Fortis but other Utilities should not be included to recommend specifics as each utility has different service territories and timing issues (with other applications). CCA: Target MIL for Residential does not have to be set at the average cost per lot for Standard URD; consider a ratchet such as say 75% (or the average MIL % i.e. % of total OH and UG costs, in the last 15 years) of that amount. Gives recognition to the fact MIL has not reflects 100% recovery since about 1989. CCA has continuing concerns as per discussion in Decision 2006-099, pages 59-60; while Residential customers are being asked to pay costs related to the increasingly additional Rate Base arising from the ever increasing amounts of MIL, there is no evidence the benefits of increased MIL payments to lot developers is passed on to customers who pay these costs. This is clear cut case of FAI being enriched by having a higher rate base and developers enriched by higher level of MILs; collectively at the expense of

		Residential customers. We recognize there is probably not much FAI can do about forcing the developers to pass the higher level of MILs to Residential customers. However, taking the ostrich approach and catering to wishes of lot developers is not the solution either. FAI must take "big picture" view i.e. if costs are extracted from Residential customers, what benefit do they receive? Need FAI to find solutions such that developers pass on the increased MILs to Residential customers who are purchasing the lots. For example, why not attach the MIL $ level to the site ID?
Target MIL 2	**Target MILs for Street Lighting** Services should be set at a level based on the average local costs per fixture for a standard underground lighting installation.	AE, EDTI & FAI generally support the proposed target MILs for Street Lighting.
Target MIL 3	**Target MILs for customer extensions in Non-Residential** investment groups (or rate classes) should be derived based on satisfying an "80/20 Rule."	AE, EDTI & FAI generally support the proposed target MILs for customer extensions in Non-Residential with the use of the "80/20" rule. CCA: There needs to be a reassessment with respect to the 80/20 rule; i.e. the notion that 80% of the customers are fully protected/covered with the proposed MIL levels. Appears to be a relic of some study TransAlta did many years back. Does this apply to Residential customers as much as other larger sized customers? Note that EDI is applying the "80/20 cost approach to their underground industrial developments." What is the practice of utilities outside Alberta?

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Item	Recommendation	Stakeholder Comments
Implementation 1	For any particular rate class, the estimated percentage (%) rate impact directly attributable to a change in MILs for that rate class in any given year should not exceed 0.X %. [expected <1.0%.]	AE, EDTI & FAI support this implementation recommendation. Further, AE & FAI suggest that 0.5% is a reasonable limit. CCA: FAI's proposals will have significant rate shock to customers; such a proposal appears to be a clear attempt to increase rate base. All parties need to recognize customers facing many cost pressures from T&D operations; proposals re: MIL therefore cannot be viewed in isolation, particularly if such proposals will exacerbate the total level of cost increases to customers. Allow transition period to move toward the Target MIL – 5 years? In the meantime, limit any increase to 10%, or x% of total rate charged to customers, per Slide 22.
Implementation 2	Target MILs should be indexed annually to track inflationary factors and/or any changes to trends/standards of service.	AE, EDTI & FAI support the indexation of investment levels. EPC believes that Implementation #2 should be included as guiding principle number 10 and the current number 10 should be number 11. CCA: No need to have an automatic indexing feature proposed in S lide 23.
Implementation 3	This Common Approach to MILs, if and as considered by the AUC, would be applied in each of the Utilities' next DTA, which will allow each utility's currently approved tariffs, test periods and MILs to run their course.	AE, EDTI & FAI support this implementation recommendation.

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Item	Recommendation	Stakeholder Comments
Implementation 4	In order to minimize any cross-subsidization between a utilities' rate classes, any material changes to MILs, while transitioning to Target MILs, should be accompanied (either concurrently or soon after) with a Phase II tariff filing.	AE, EDTI & FAI generally support this implementation recommendation.

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Item	Recommendation	Stakeholder Comments
Any Other Comments		CCA: FAI's proposals will have significant rate shock to customers; such a proposal appears to be a clear attempt to increase rate base. All parties need to recognize customers facing many cost pressures from T&D operations; proposals re: MIL therefore cannot be viewed in isolation, particularly if such proposals will exacerbate the total level of cost increases to customers. UCA: As outlined in the UCA evidence and Argument in the latest ATCO Electric GTA, the UCA is concerned with the progress to date in developing a province wide view of MILs. The UCA wants to ensure that all Albertans are treated fairly. As a result, the UCA would prefer to see a Commission led process to standardize the approach to MILs in Alberta. UDI: Thank you for hosting the stakeholder Input Session on March 16. On behalf of UDI we have reviewed the Guiding Principles, the Target MIL and the Implementation steps and we do not have any comments on them. We believe they have been well thought out and agree with them as drafted. UDI is encouraged by the progress made and encourages Fortis to continue to move the process forward so that we may correct the inequities that have arisen since MILs were established.