

February 28, 2008

BY EMAIL AND WEB POSTING

TO: ALL INTERESTED STAKEHOLDERS

RE: AUC RULE 019, SPECIFIED PENALTIES FOR CONTRAVENTION OF ISO RULES

The Alberta Utilities Commission (the “AUC”) is inviting views from interested stakeholders as it continues to develop the principles and enforcement mechanics of AUC Rule 019, Specified Penalties for Contravention of ISO Rules.

From the comments received from stakeholders during the initial round of individual consultations in January 2008, the AUC is particularly interested in the views of stakeholders on the issues noted below.

Issue 1: Principles

AUC staff is contemplating the following principles in developing the provisions of Rule 019:

- The purpose of Rule 019 is to encourage and promote appropriate behaviour under the ISO rules
- Specified penalty provisions to be written in a manner that provides clearly defined parameters so as to minimize interpretation issues for market participants and minimize the level of discretionary action on the part of the Market Surveillance Administrator
- Enforcement will be timely, effective and appropriate and be simple to understand
- The specified penalties are to be directed to the non-compliant act of the market participant, and not to the outcome or consequence of the act.
- Great importance will be placed on self-reporting of non-compliance, with prompt and full disclosure and demonstration of corrective actions resulting in a reduction of the amount of specified penalty that would otherwise be payable.

AUC staff welcomes the views of stakeholders regarding the validity of these principles and recommendations for other principles that should be considered.

Issue 2: Enforcement Process

One approach would be to adopt the “hot stove rule”. Under this approach, the enforcement would be immediate, with warning, consistent, and non-discriminatory. A fixed specified financial penalty would apply for each act of non-compliance.

An alternative approach would be to adopt a graduated enforcement model. The initial violation could be addressed through a low-level specified penalty. Subsequent violations would attract a higher-level specified penalty, increasing in severity with the frequency of non-compliance.

The question for stakeholders is which of these approaches would accommodate the requirement for simplicity, stability and transparency and what further modifications could be contemplated to the enforcement process to make it more effective and meaningful for market participants, the MSA and the AUC.

Issue 3: Specified Penalty Matrix

In the interest of establishing a specified financial penalty matrix that is simple to understand and implement, AUC staff is considering two approaches.

The first approach would be to apply the same specified financial penalty to every ISO rule; a “one-size fits all” model.

The question for stakeholders would then be the amount at which the specified penalty should be set to promote and encourage compliance.

The alternative approach would be to establish broad categories of ISO rules (e.g., those pertaining to administrative requirements, operating requirements, reporting requirements etc.) and establish a different specified penalty amount for each broad category. The amount of the specified penalty could be based on the perceived risk that the non-compliant act would have on the system operator’s ability to operate the Alberta Interconnected Electric System in a safe and reliable manner.

The question for stakeholders would then be the amount at which the specified penalty should be set for each broad category. Stakeholders are also encouraged to provide comments on further modifications that could be contemplated regarding the design of the specified penalty matrix.

In addition to providing written comments, all interested parties will be invited to participate in a stakeholder consultation conference. The consultation conference will be hosted by AUC staff in March. Further details will be issued once comments are received on the questions identified above.

Participants who wish to provide written comments on this paper must do so by 5:00 p.m. on March 18, 2008.

All submissions in relation to this consultation are to be addressed to the undersigned at Fino.tiberi@auc.ab.ca. All materials related to this consultation will be posted on the “Projects and Initiatives” portion of the AUC’s website (www.auc.ab.ca).

If you have any questions regarding this consultation, please contact me at 403-592-4410, or through the e-mail address noted above.

Yours truly,

<Original signed by>

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Alberta Utilities Commission