

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (“MOU”) made effective the 15th day of July, 2010.

Among:

North American Electric Reliability Corporation,
a corporation having its head office in the City
of Princeton, in the state of New Jersey (“NERC”);

and,

Western Electricity Coordinating Council,
a corporation having its head office in the City
of Salt Lake City, in the state of Utah (“WECC”);

and,

Independent System Operator, operating as the
Alberta Electric System Operator,
a statutory corporation having its head office in
the City of Calgary, in the Province of Alberta (“AESO”).

Background and Purposes:

AESO is, and has been for some time, a member of both NERC and WECC.

On August 8, 2005 the United States government signed into law the *Energy Policy Act of 2005* (“EPACT”), which among other things, provided for the certification by the Federal Energy Regulatory Commission (“FERC”) of an entity in the United States to be known as the Electric Reliability Organization (“ERO”). NERC submitted an application to be certified by FERC as the ERO and has in fact been so certified.

In accordance with the authority granted to the Alberta Minister of Energy (“AB Minister”) pursuant to Section 20 of the *Transmission Regulation, AR 86/2007* (“Alberta T Reg.”), the Province of Alberta (“Alberta”) has recognized NERC as the ERO.

Some of WECC's members operate electric transmission systems within the western region of the United States and are subject to FERC jurisdiction, and some of WECC's members operate electric transmission systems solely within Alberta or the Province of British Columbia in Canada, or in Mexico, and are therefore not subject to FERC jurisdiction.

AESO is an Alberta statutory corporation, incorporated pursuant to the *Electric Utilities Act*, S.A. 2003 c. E 5.1, ("EUA") whose duties include providing for "the safe, reliable and economic operation of the Alberta interconnected electric system" and adopting reliability standards in Alberta ("AB Reliability Standards").

EPACT provides for the approval by FERC of reliability standards to be applicable in the United States ("US Reliability Standards").

Although US Reliability Standards are not in force in Alberta under Canadian or Alberta law, the Alberta T Reg. authorizes the approval by the regulatory authority in Alberta, the Alberta Utilities Commission ("Commission"), of reliability standards in Alberta, subject to consultation with Alberta "market participants"¹ ("market participants") and a recommendation by AESO to reject or approve any such standards.

As a NERC member, but subject to the foregoing statutory obligations with respect to adopting AB Reliability Standards and that AESO is not subject to the US Compliance Programs (as hereafter defined), AESO accepts the responsibility "to promote, support, and comply with the purposes and policies of the Corporation as set forth in NERC's

¹ "market participants" is defined in the EUA, s. 1(1) (ee) as follows:

"market participant" means

- (i) any person that supplies, generates, transmits, distributes, trades, exchanges, purchases or sells electricity, electric energy, electricity services or ancillary services, or
- (ii) any broker, brokerage or forward exchange that trades or facilitates the trading of electricity, electric energy, electricity services or ancillary services;

Certificate of Incorporation, Bylaws, Rules of Procedure, and Reliability Standards as from time to time adopted, approved, or amended”.

The AB Minister has directed AESO and the Commission to work cooperatively with NERC and the “regional entities”, as described in EPACT, to adopt US Reliability Standards, as appropriate, in Alberta as AB Reliability Standards, all in accordance with the Alberta T Reg.

AESO operates the electric transmission system in Alberta. Alberta’s system is interconnected with the electric transmission systems in the northwest United States through its interconnection with the electric transmission system in the Province of British Columbia. As AESO operates solely within Alberta, it is not subject to FERC jurisdiction. US Reliability Standards do not apply in Alberta, nor do the FERC mandated compliance monitoring and enforcement programs of WECC or NERC (collectively “US Compliance Programs”). However, it is beneficial for the maintenance of the Western Interconnection² for AESO and WECC to maintain a cooperative and supportive working arrangement. To that end, and to recognize and address jurisdictional differences, AESO and WECC have entered into a WECC-AESO Membership and Operating Agreement dated September 23, 2008 (“WECC-AESO Agreement”).

Pursuant to EPACT, NERC, as the ERO, may delegate, by agreement, certain authority with regard to enforcement and other matters in certain areas within its jurisdiction to another entity. In that regard, NERC and WECC have entered into a Delegation Agreement whereby NERC has delegated certain of its authority to WECC (“Delegation Agreement”).

AESO, as a member of NERC and WECC, is committed to pay NERC assessments (“NERC Assessments”) and WECC assessments (“WECC Assessments”), respectively, as appropriate, to assist with the support of the operations of NERC and WECC.

² The geographic area containing synchronously operated electric grid in the western part of North America, which includes parts of Montana, Nebraska, New Mexico, South Dakota, Texas, Wyoming, and Mexico and all of Arizona, California, Colorado, Idaho, Nevada, Oregon, Utah, Washington and the Canadian provinces of British Columbia and Alberta.

However, these assessments include costs to carry out the US Compliance Programs with respect to US Reliability Standards. The AESO and other Alberta entities, operating in Alberta, are not subject to US Reliability Standards within Alberta or the US Compliance Programs. AESO and other Alberta entities, operating in Alberta, are subject to AB Reliability Standards and therefore are bearing the costs of Alberta compliance monitoring and enforcement programs with regard to AB Reliability Standards, with the exception, as outlined herein, of costs borne by WECC pursuant to the WECC-AESO Agreement and the Services Agreement between WECC and the Market Surveillance Administrator (MSA) (“MSA-WECC Services Agreement”).

NERC, WECC and AESO, (collectively “the Parties”)³ acknowledge that an annual credit for an appropriate portion of each of NERC Assessments and WECC Assessments to be paid by AESO related to the NERC and WECC costs for carrying out the US Compliance Programs should be determined through a negotiation in good faith by the Parties, and reflected in NERC Assessments and WECC Assessments.

This MOU describes the relationship among the Parties, identifies how AB Reliability Standards will be adopted and approved in Alberta and identifies how compliance monitoring and enforcement of AB Reliability Standards will take place within Alberta. The MOU sets out a process for the establishment of an adjustment to AESO’s portion of NERC Assessments and WECC Assessments to reflect one of the unique circumstances of AESO as a member of NERC and WECC.

Relationship among the Parties:

NERC and AESO agree that it is beneficial to both parties for AESO to continue to be a member of NERC and to comply with the obligations as a member of NERC, but subject to the foregoing statutory obligations with respect to adopting AB Reliability Standards, that AESO is not subject to the US Compliance Programs, and as provided for otherwise in exemptions agreed to by both parties.

³ For a summary of the mandate of each one of the Parties, see Appendix A.

WECC and AESO agree that it is beneficial to both parties for AESO to continue to be a member of WECC, and AESO will continue as a WECC member and will comply with the obligations of a WECC member, except as provided for otherwise in the WECC-AESO Agreement and as provided for otherwise in exemptions agreed to by both parties.

Establishment of AB Reliability Standards:

The EPACT provides for the establishment of US Reliability Standards and includes the obligation for NERC, as the ERO, to develop and submit to FERC for approval, proposed new or revised US Reliability Standards.

The Alberta T Reg. authorizes the adoption by AESO and approval by the Commission of AB Reliability Standards. AESO carries out consultation with market participants to determine the appropriateness of adopting US Reliability Standards and, as applicable, amendments to such standards required to comply with unique Alberta operational requirements and Alberta law.

Compliance Monitoring and Enforcement of AB Reliability Standards

The Parties acknowledge that the US Compliance Programs have no application in Alberta or to AESO as a member of NERC or WECC. However, the Parties acknowledge that reliability of the interconnected bulk electric system in North America is important and of mutual benefit to each of the jurisdictions involved. The Parties further acknowledge that compliance monitoring and enforcement of AB Reliability Standards in Alberta be appropriately carried out in accordance with Alberta law.

AESO acknowledges that it will carry out, or cause to be carried out, the compliance monitoring in Alberta of market participants, with AB Reliability Standards in a manner determined in Alberta.

AESO acknowledges that to that end it has implemented an Alberta compliance monitoring program ("AB Compliance Program") to monitor market participant compliance with AB Reliability Standards. One of the means to support that program is

ISO Rule 12, “ISO Compliance Monitoring” (“ISO Rule 12”). ISO Rule 12 prescribes the processes and guiding principles by which AESO monitors the compliance of market participants with “applicable ISO Rules and standards”.

The MSA is an Alberta statutory corporation, established under the EUA and continued pursuant to Section 32 of the *Alberta Utilities Commission Act, S.A. 2007, c. A-37.2* (“AUCA”). Division 2 of the AUCA establishes the MSA’s mandate which includes, without limitation, the investigation of the contravention by a market participant of the provisions of the EUA and associated regulations, the ISO Rules, AB Reliability Standards and decisions, orders or rules of the Commission.

The Commission’s duties include, without limitation, adjudicating contraventions of AB Reliability Standards brought to it by the MSA and establishing the process for assessment of penalties and establishing penalties in respect of such contraventions.

Section 8.3 of the WECC-AESO Agreement provides that WECC and AESO have agreed to cooperate in the establishment of a program to effect compliance monitoring of AESO with AB Reliability Standards, which will consider:

- the establishment of a program that will be substantially similar to the AB Compliance Monitoring Program;
- a reporting framework for AESO reporting compliance information to WECC;
- a process for WECC and AESO to work together cooperatively if a possible contravention is identified by WECC;
- procedures for AESO to demonstrate it has achieved compliance with AB Reliability Standards; and
- an implementation phase for the aforementioned program.

One of the duties of WECC outlined in Section 8.4 of the WECC-AESO Agreement is that if WECC determines AESO is not in compliance with an AB Reliability Standard, it must promptly refer the matter to the MSA.

WECC and the MSA have therefore entered into the MSA-WECC Services Agreement pursuant to which WECC, on behalf of the MSA, will monitor AESO's compliance with AB Reliability Standards and report its findings to the MSA. WECC receives compensation for these compliance monitoring services through the WECC Assessment.

Disclosure of Confirmed Contraventions of AB Reliability Standards

The Parties acknowledge that:

- a finding by the Commission that an AB Reliability Standard has been contravened may, subject to Commission Rules and as otherwise directed by the Commission, be made publicly available by the Commission; and
- any such contravention may impact the reliability of the Western Interconnection and therefore is of interest to NERC and WECC and their respective members.

AESO will notify NERC and WECC as soon as possible after such a finding has been made public. Such notice shall advise each of NERC and WECC of the expiry date for any appeal that may be taken in respect of such finding or whether or not a request for a review of such finding in accordance with Commission Rules, has been taken or may be taken. For greater certainty, AESO will not disclose to NERC or WECC any information or data with respect to such contravention other than what has been made public by the Commission.

AESO recognizes the value to the North American electricity industry of potential lessons learned from such contraventions and will work with NERC and WECC to provide information on lessons learned, as made publicly available by the Commission, in accordance with Commission Rules.

Funding of NERC and WECC and Determination of Annual Credits:

The Parties acknowledge that as part of the process by which NERC and WECC each develop their annual budgets, and from which are derived NERC Assessments and

WECC Assessments, including determining charges or costs incurred by WECC in carrying out its responsibilities in the Delegation Agreement, NERC and WECC will each provide AESO with a reasonable opportunity to provide input in the development by each of their respective annual budgets.

The Parties acknowledge as follows:

- i) NERC Assessments and WECC Assessments include the costs of the US Compliance Programs for US Reliability Standards;
- ii) AESO and other market participants bear the costs of a compliance monitoring and enforcement program of AB Reliability Standards within Alberta and WECC and NERC derive some benefit from the AB Compliance Program as Alberta is part of the Western Interconnection; and
- iii) the US Compliance Programs do not apply in Alberta, but as Alberta is part of the interconnected bulk power system in North America, Alberta does derive some benefit from such programs; and
- iv) as Alberta carries out and finances a compliance monitoring and enforcement program of AB Reliability Standards, there is a duplication of program costs for which the AESO and Alberta are paying as part of NERC Assessments and WECC Assessments; and,
- v) to address such duplication of payment, commencing in 2011, WECC and NERC will apply a credit to the WECC Assessment ("Annual WECC Credit") and the NERC Assessment ("Annual NERC Credit"), respectively, for AESO, for an appropriate portion of the duplicated compliance monitoring and enforcement costs.

The Parties will utilize commercially reasonable efforts to establish a process for the negotiation in good faith and establishment as part of the WECC and NERC annual

budgeting process for the following year, beginning with the 2011 budget, as to the amount of the Annual WECC Credit and Annual NERC Credit for such following year.⁴

The amount of the Annual WECC Credit will be negotiated by the WECC and AESO for each calendar year, and reflected each calendar year in the AESO's portion of the WECC Assessment as contemplated by this Agreement. . WECC will submit the Annual WECC Credit to NERC as a part of its annual business plan and budget submission.

The amount of the Annual NERC Credit will be negotiated by NERC and AESO each calendar year, and will be submitted to the NERC Board of Trustees for approval as a part of NERC's annual Business Plan and Budget.

NERC will submit the amount of the Annual NERC Credit and the amount of the Annual WECC Credit as part of its submission of the business plans and budgets of NERC and the Regional Entities for the calendar year, to FERC for its approval.

The Parties acknowledge that when WECC Assessments are invoiced within the WECC region, the billing documents include, the NERC Assessments. AESO's portion of these costs form part of AESO's administrative costs which are approved by the AESO Board.

Amendments and Termination of This MOU:

This MOU is not intended to be legally binding on the Parties but is intended to describe the relationship among the Parties regarding the adoption of AB Reliability Standards, compliance monitoring and enforcement mechanisms with respect to those standards, and the process for reaching a mutually satisfactory determination of Annual WECC Credit and Annual NERC Credit and other matters. The MOU will continue in effect until replaced or amended by the signatories, or terminated by any one of the signatories on 30 days notice to the other Parties delivered by registered mail to the address below.

⁴ A credit was applied to the AESO 2010 Statutory Assessment (WECC Invoice #00550, dated November 13, 2009) for the WECC Assessment portion which pre-dated the MOU.

Addresses for Notice:

For NERC:

North American Electric Reliability Corporation
116 – 390 Village Blvd.
Princeton, New Jersey 08540
Attention: David Cook, Vice President and General Counsel
Phone: (609) 455-8060

For WECC:

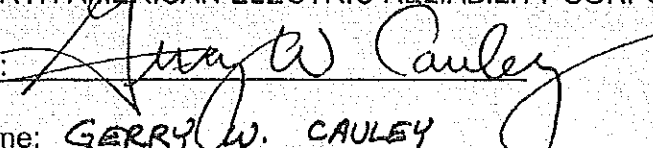
Western Electricity Coordinating Council
155 North 400 West, Suite 200
Salt Lake City, UT 84103
Phone: (801) 582-0353
Attention: Louise McCarren, Chief Executive Officer

For AESO:

Alberta Electric System Operator
2500, 330 – 5 Avenue SW
Calgary, Alberta T2P 0J4
Attention: Diana Pommen, Director, Interjurisdictional Affairs
Phone: (403) 539-2510

Signatories:

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Per: 

Name: GERRY W. CAULEY

Title: PRESIDENT & CHIEF EXECUTIVE OFFICER

WESTERN ELECTRICITY COORDINATING COUNCIL, INC.

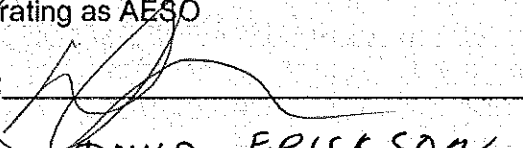
Per: 

Name: LOUISE MCCARREN

Title: CHIEF EXECUTIVE OFFICER

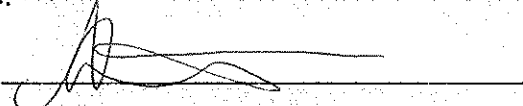
INDEPENDENT SYSTEM OPERATOR

operating as AESO

Per: 

Name: DAVID ERICKSON

Title: PRESIDENT AND CHIEF EXECUTIVE OFFICER

Per: 

Name: HEIDI KIRRMAYER

Title: VICE PRESIDENT REGULATORY

APPENDIX A

This is Appendix A to the Memorandum of Understanding among the Parties made effective the 15th day of July, 2010.

RESPONSIBILITIES OF THE PARTIES

NERC

NERC is responsible for the following:

- (a) Improving the reliability of the bulk electricity system in North America;
- (b) Developing reliability standards that can have application in Canada and the United States;
- (c) Enforcing reliability standards in the United States;
- (d) Assessing reliability annually via 10-year and seasonal forecasts;
- (e) Monitoring the bulk power system;
- (f) Educating, training, and certifying industry personnel.

WECC

WECC's responsibilities, as set forth in the Amended and Restated Delegation Agreement between NERC and WECC, including its Appendices, effective January 3, 2009, with FERC approved revisions effective June 16, 2009, and as noted in the WECC-AESO Agreement, include but are not limited to:

- (a) Carrying out its duties as a "regional reliability council", including without limitation:
 - i) Coordinating and promoting electric system reliability in the Western Interconnection;
 - ii) Supporting efficient competitive power markets;
 - iii) Ensuring open and non-discriminatory transmission access among its members;
 - iv) Providing a forum for coordinating the operating and planning activities of its members; and
 - v) Providing a forum for resolving transmission access disputes.
- (b) Carrying out its obligations as a "Regional Entity".

AESO

AESO's duties and responsibilities are set out in the *EUA* and the Alberta T Reg and include, without limitation, the following:

- (a) Directing the safe, reliable and economic operation of the Alberta Interconnected Electric System;
- (b) Planning and making arrangements for construction of transmission facilities to meet the needs of load and generation;
- (c) Facilitating a fair, efficient and openly competitive market for electricity; and
- (d) Providing system access on the Alberta Interconnected Electric System.