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ALBERTA ELECTRIC SYSTEM OPERATOR

2005 Annual General Meeting

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RELIABLE POWER. RELIABLE MARKETS. RELIABLE PEOPLE.

Dale McMaster

Chief Operations Officer

May 18, 2005

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AESO Focus – Core Business

- Reliable system operations
- Development of the transmission system
- Providing AESO customers with access to the transmission system
- Continued evolution and operation of a fair, efficient and openly competitive wholesale electricity market
- Administration and regulation of load settlement function

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AESO Focus - Objectives

- To deliver a quality product on a timely basis
- To create and implement an effective consultation process
- To make decisions that balance diverse and often competing interests in a fair and transparent manner
- To prudently manage risks and costs
- To ensure that the AESO is viewed as credible, competent, cost-effective, trusted and respected

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Stakeholder Confidence

- We need to have the trust of stakeholders to be successful
- Effective consultation based on mutual trust and respect
- Consultation is a time consuming process, but it will get us to the right place faster
  - Consult earlier and more often
  - Manage expectations
  - Transparent processes
  - Early agreement on issue definition - “what’s the problem we’re trying to solve?”
  - Leverage knowledge of industry – “we do not have a monopoly on good ideas”
  - Transparent decisions

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Market Services

- Continued contribution to the development of the Market Policy
- Implementation of the Market Policy and associated regulations
  - Many changes to AESO market rules
  - Many changes to AESO market systems
- Strengthening of the AESO market group
- Expand our focus beyond design and rules to include:
  - Market performance
  - Market strategy

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System Operations

- Ensure system reliability and facilitation of competitive markets
- Establish appropriate system operating limits
  - Robust system limits are critical to maintain system reliability
  - Risk management strategies
  - Procurement of ancillary services to support system operation
- High reliance on System Controllers and IT systems
  - Expertise, training, tools
- NERC / WECC audit in May 2005
- System Coordination Centre Project -- 2007

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Development of Alberta's Grid

- Critical system reinforcements approved – need to be implemented:
  - 500 kV Edmonton to Calgary reinforcement
  - Southwest system reinforcement
- Pending decisions:
  - Interim measures: Calgary area reactive power
  - City of Edmonton reinforcement
- "Need" applications to be filed in 2005 include:
  - Northwest region reinforcement
  - Southeast region reinforcement

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20-Year Transmission Outlook

- Provide high-level overview of how the transmission system might develop for alternative generation additions and load-growth scenarios
- Context for development of the 10-Year Development Plan, as well as Need and Facility applications
- The Outlook is not a “plan” – it is not used to make decisions on what facilities will be built, those decisions will continue to be driven by Need and Facility applications
- Update to the 10-Year Plan by year end

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Other Challenges

- Increased export capability – “do more with what we’ve got”
- Merchant Transmission
- Mandatory Reliability Standards
- Customer Interconnection Process
- Strengthen AESO infrastructure

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Operating and Financial Results

David Erickson
Chief Financial Officer

May 18, 2005

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Topics Discussed

- 2004 Operating and Financial Results
  - Pool Price, Generation, Load
  - Transmission
  - Energy Market
  - Load Settlement
  - AESO Costs
- 2005 AESO Costs Year-to-Date

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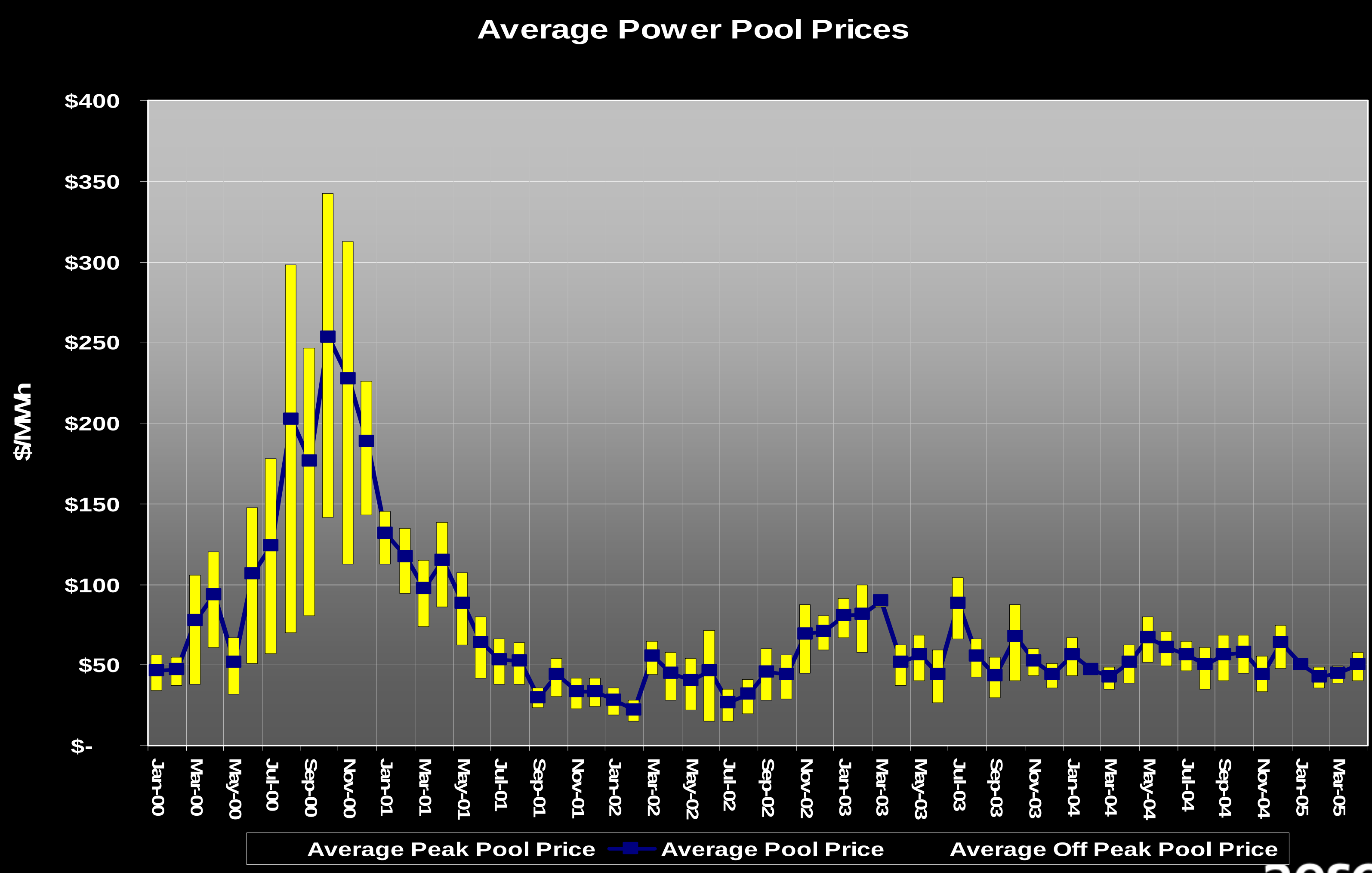
Pool Price – Average



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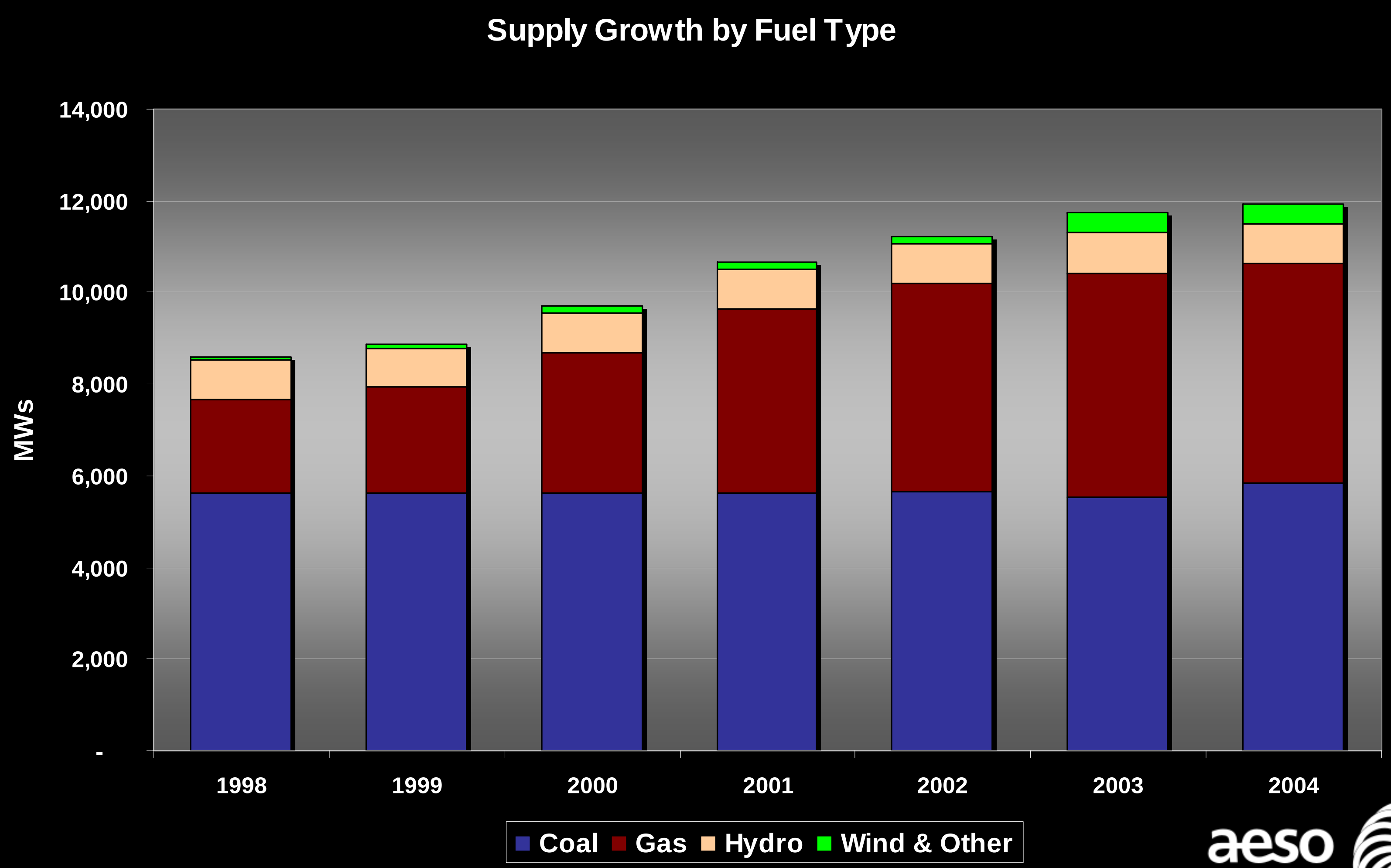
Generation – Annual Supply Growth



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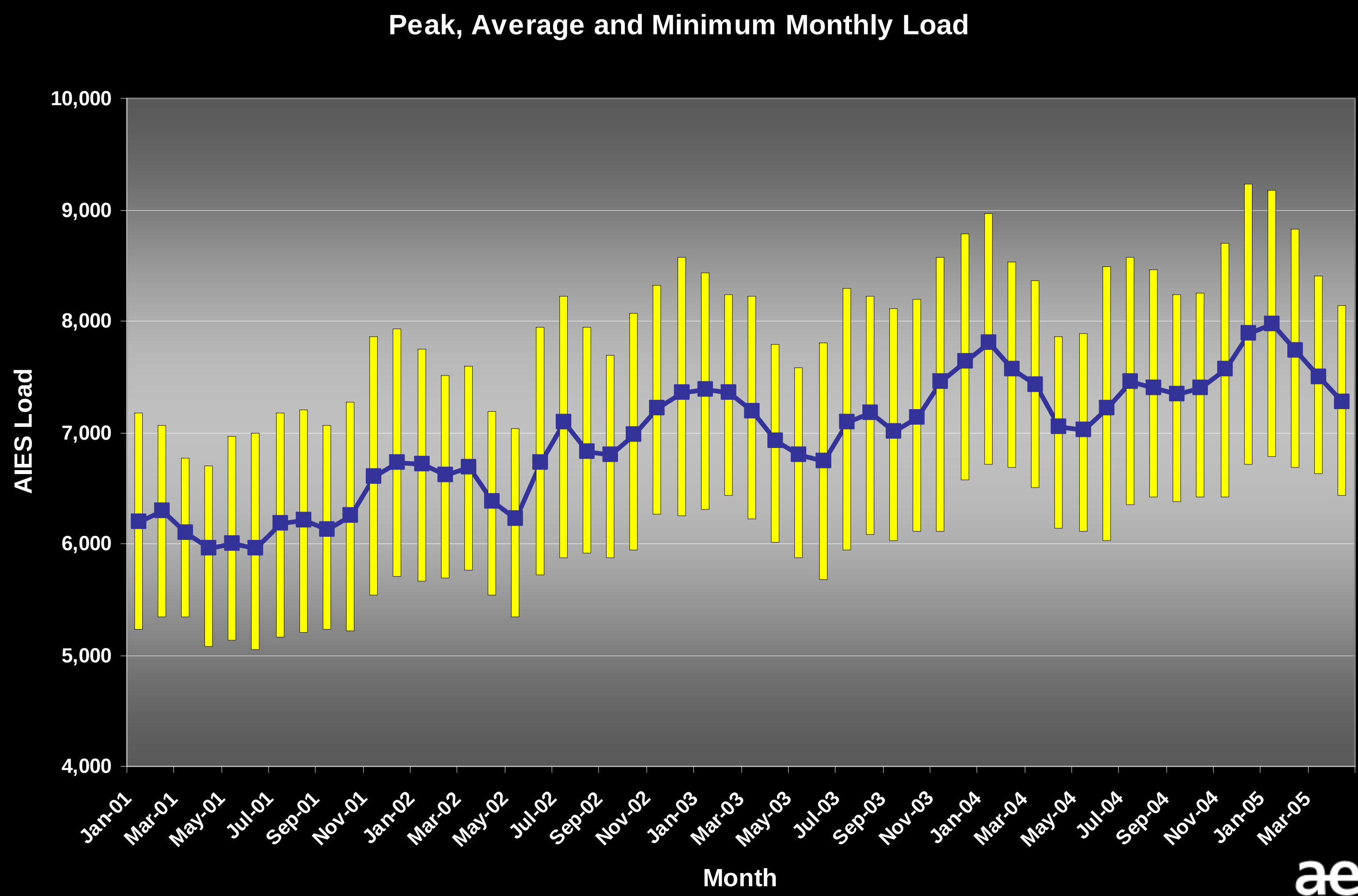
Load – Peak, Average, Minimum Monthly



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Transmission

- More than 21,000 of kilometers (circuit length)
- Single control area of 660,000 km^2
- B.C. & Sask. Interconnections (for operations - 769 MW export, 868 MW import)
- 192 generating units
- 9,236 MW system peak load
- Over 60 transmission customers
- 12,006 MW installed generating capacity
- 3,900 MW added 1998-2004

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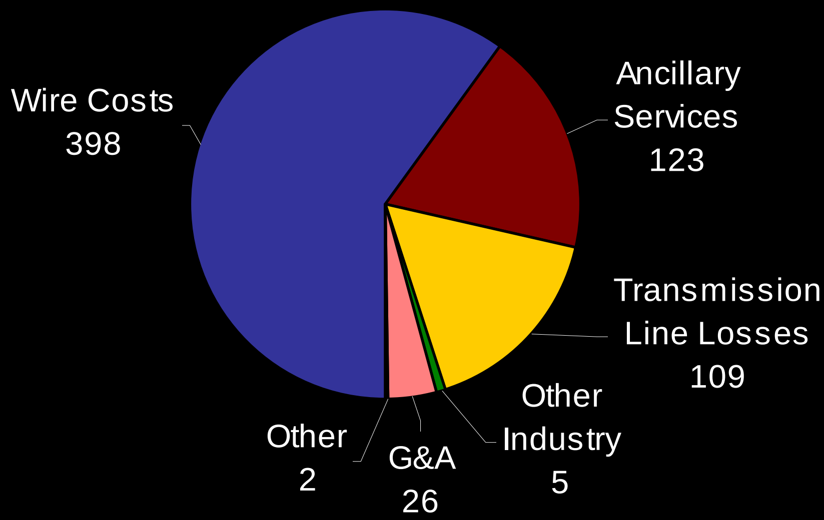
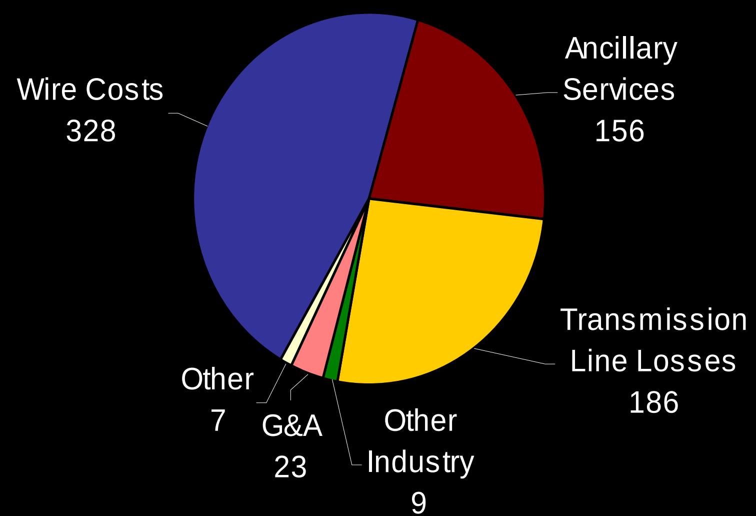
Costs of Transmission

(in millions of $)

2004 Transmission Costs
Total $663 million



2003 Transmission Costs
Total $709 million



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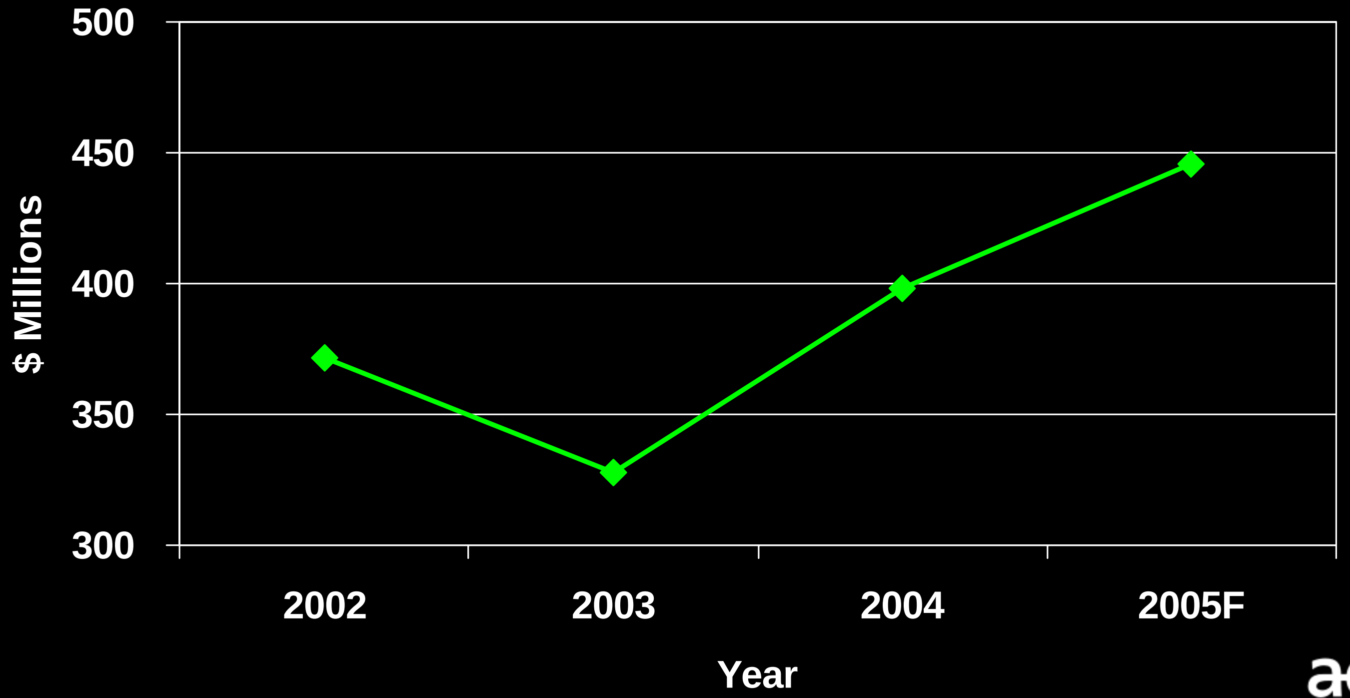
Wire Costs

(in millions of $)

	2005F	2004A
Wires Costs	$ 445.7	$ 398.1



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Ancillary Services

(in millions of $)

	2005 F	2004A
Ancillary Services	$ 137.7	$ 123.0

Operating Reserves	84.4	69.2
Transmission Must Run	41.4	43.1
Other	11.9	10.7
	$ 137.7	$ 123.0

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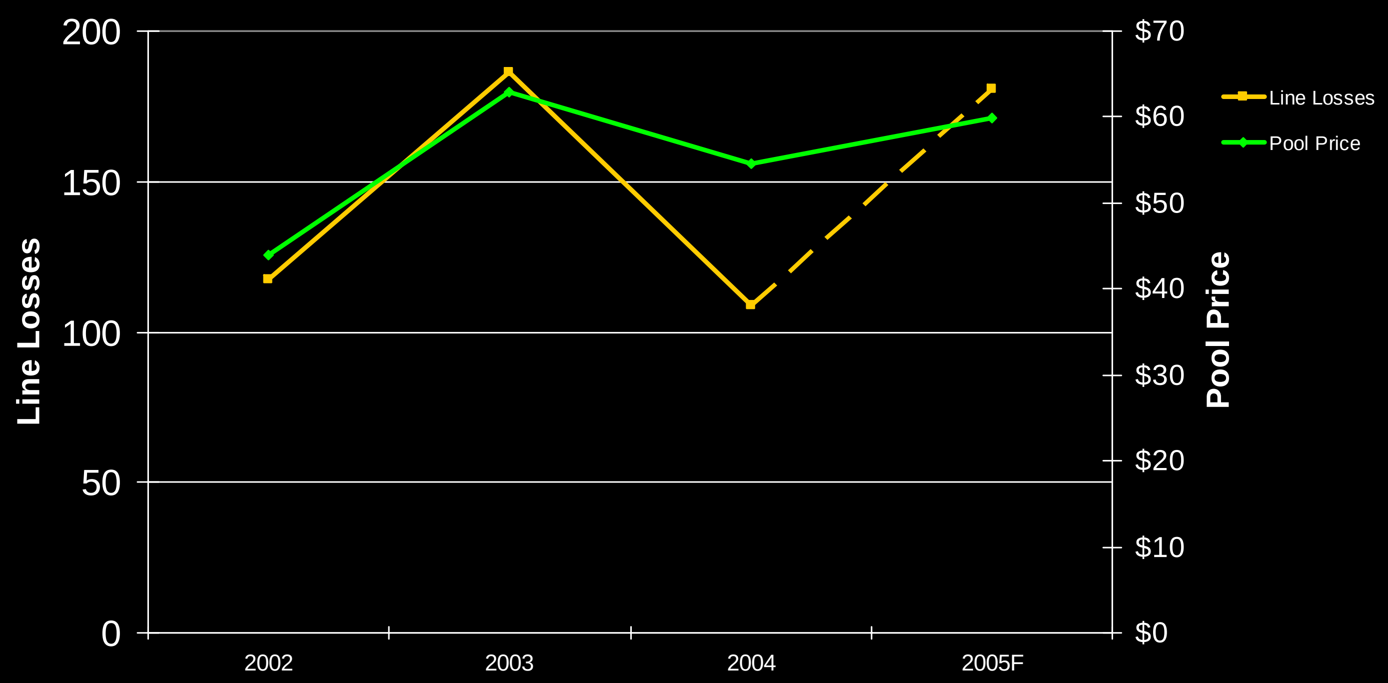
Transmission Line Losses

(in millions of $)

	2005 F	2004A
Transmission Line Losses	$181.0	$ 109.1



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Energy Market

- 9,236 MW peak demand
- 12,006 MW Alberta supply
- 225 energy market participants at Dec 2004 compared to 231 at Dec 2003
- 103 retailers/self retailers in 2004 compared to 110 in 2003
- $5.6 billion in energy was financial settled through the AESO in 2004 (buy and sell)
  - 112 TWh of energy in 2004 compared to 109 TWh in 2003
  - Average hourly pool price of $63/MWh in 2003 compared to $54/MWh in 2004

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Energy Market Trading Charge

(in millions of $)

	2005	2004
G&A Costs & Capital Recovery	$ 13.5 M	$ 12.2 M
Prior Year Over-collection	(2.0 M)	0.0 M
Total	$ 11.5 M	$ 12.2 M
Forecasted Volume (GWh)	117,886	109,986

Energy Market Trading Charge	11.1 ¢ / MWh	11.1 ¢ / MWh
MSA Recovery	2.3 ¢ / MWh	2.5 ¢ / MWh
Total Trading Charge	13.4 ¢ / MWh	13.6 ¢ / MWh

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Load Settlement

- Alberta has 10 load settlement zones
  - Settled by 4 Load Settlement Agents (LSA)
  - With data from 1.4 million sites
  - Requiring 2.5 billion pieces of transactional data annually
- Allocated $3 Billion of energy in 2004
  - Total energy settled = 50,200 GWh
  - UFE allocated = 344 GWh
  - Investment in systems – estimated at $40 Million industry-wide
- Post-final retailer adjustments – reduced to $13 million in 2004 (24% reduction)
- Improvement in settlement accuracy:

	2003	2004
Initial=>Interim	1.5%	1.0%
Interim=>Final	0.5%	0.3%

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AESO General & Administrative Costs

(in millions of $)

	2004	2003
Salaries and Benefits	$ 22.8	$ 18.5
Professional Fees and Consulting	5.2	7.0
Office and Administrative	7.9	6.1
AESO Transition	0.0	2.5
G&A Costs	35.9	34.1
Amortization and Depreciation	5.6	5.5
EAL Purchase Price	0.0	4.9
Interest Expense	0.7	1.0
Total	$ 42.2	$ 45.5

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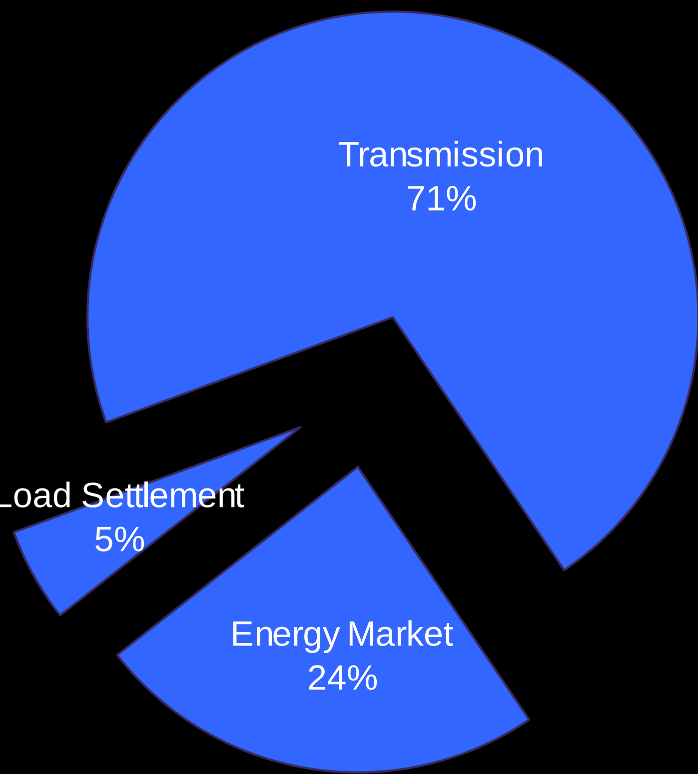
AESO 2004 G&A Allocation



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2005 Financial Results

YTD April

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2005 AESO Costs (at April 30)

(in millions of $)

	Actual	Forecast
Wires Costs	$ 134.1	$ 144.1
Transmission Line Losses	40.4	64.9
Ancillary Services	47.3	46.0
Other Industry Costs	0.8	2.9
G&A Costs	12.4	13.0
Other	2.4	2.2
Total	$ 237.4	$ 273.1

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