



March 28, 2006

AESO STS Customers

Dear Customer:

Re: Rider C for STS Customers in 2006

Please be advised that the AESO has terminated the first quarter 2006 STS Rider C charge effective February 28, 2006. After recently reviewing 2005 deferral account balances for STS customers, the AESO determined that Rider C should not be charged to STS customers for March 2006 transmission billings, nor for any future month.

As a result of changes implemented with the AESO's 2006 tariff and in accordance with the *Transmission Regulation*, STS customers are not subject to Deferral Account Adjustment Rider C for cost and revenue variances with respect to 2006 production months. However, a final STS Rider C was implemented for STS customers in the first quarter of 2006 to collect a shortfall in the STS deferral account estimated to remain at the end of 2005. The AESO distributed information about this in late 2005.

The AESO's estimate of year-end STS deferral account balances was prepared in December 2005 and posted on the AESO's website on December 29, 2005. The STS Rider C for the first quarter of 2006 was a charge of \$1.40/MWh based on the following information:

Estimated STS 2005 Deferral Account as of 29 Dec 2005 (\$ millions)					
Component	Revenues	Costs	Variance	Rider C Collections (Refunds)	Total Surplus (Shortfall)
Operating reserve charge	107.6	(96.0)	11.6	(12.8)	(1.2)
Interconnection charge	171.9	(191.1)	(19.2)	14.7	(4.5)
Losses charge	179.0	(206.8)	(27.8)	12.7	(15.1)
Total	458.5	(493.9)	(35.4)	14.6	(20.8)
Forecast STS Production in Q1 2006 (GWh)					14,900
STS Rider C in Q1 2006 Charge (\$/MWh)					1.40

The \$20.8 million estimated shortfall at the end of 2005 was considered too large to allow to remain until the 2005 deferral account reconciliation application was filed near the end of 2006. The AESO therefore implemented a final STS Rider C to collect the shortfall over the first three

months of 2006. Information on the final STS Rider C was posted on the AESO's website on December 22, 2005.

The AESO again reviewed the 2005 deferral account balances in mid-March 2006, and found that the 2005 year-end STS deferral account balances were materially lower than estimated in December and had been fully recovered as of the end of February 2006. The STS 2005 deferral account year-end balance and Rider C collection in January and February of 2006 were as follows:

Actual STS 2005 Deferral Account as of 24 Mar 2006 (\$ millions)					
Component	Revenues	Costs	Variance	Rider C Collections (Refunds)	Total Surplus (Shortfall)
Operating reserve charge	106.5	(93.4)	13.0	(12.9)	0.2
Interconnection charge	172.7	(190.3)	(17.6)	14.9	(2.7)
Losses charge	180.9	(201.8)	(20.9)	13.3	(7.6)
Total	460.1	(485.5)	(25.5)	15.3	(10.1)
STS Rider C Revenues Collected in January 2006					6.9
STS Rider C Revenues Collected in February 2006					6.2
STS 2005 Deferral Account Balance Surplus as of 28 Feb 2006					3.0

The actual STS 2005 year-end balance was a \$10.1 million shortfall rather than the \$20.8 million shortfall estimated in December 2005. The change from the estimate resulted from revenues being slightly higher than estimated and costs being significantly lower than estimated, especially for operating reserves (\$2.6 million) and losses (\$5.0 million). The reductions in costs are primarily attributable to actual pool price being significantly less than forecasted for December at the time the year-end estimate was prepared.

After reviewing possible options, the AESO has decided to terminate STS Rider C earlier than anticipated, on February 28, 2006, rather than March 31, 2006. As a surplus exists as of February 28, 2006, for the STS 2005 deferral account, there is no need to continue the collection of STS Rider C during March. In fact, such collection would make the problem worse. A continuation of STS Rider C during March would collect an additional estimated \$7 million of revenues, resulting in an estimated STS 2005 deferral account balance surplus of \$10 million. This surplus would then need to be refunded through a further extension of STS Rider C, through implementation of Rider B (since the balance would exceed the \$7.0 million Rider B threshold), or at the time of approval of the 2005 deferral account reconciliation in early 2007.

The AESO considers it more practical and efficient to not collect STS Rider C during March 2006. STS Rider C will therefore terminate on February 28, 2006, rather than on March 31, 2006 as initially intended. The AESO does not anticipate that the early termination of the STS Rider C charge will cause harm to any STS customer.

This will also conclude the application of Rider C to STS customers. Any balance remaining in the STS deferral account with respect to 2005 or prior years will be addressed in the AESO's 2005 deferral account reconciliation application expected to be filed near the end of 2006.

Please note that this early termination affects only **Rider C for STS customers**. **Rider C for DTS and FDS customers** will continue to apply in March 2006, and will also continue in future quarters at levels set in accordance with the AESO's Rider C practice. As well, Losses Calibration Factor Rider E will apply to STS, DOS, EOS, and IOS customers in 2006, and is expected to be set at a non-zero level for the second quarter of 2006.

Information with respect to AESO deferral accounts, including Riders C and E, can be found on the AESO's website at www.aeso.ca by following the path Transmission ► Settlement ► Transmission Deferral Accounts.

If you have any questions on the early termination of the STS Rider C, please contact John Martin at (403) 539-2465 in Calgary or at john.martin@aesoc.ca.

Yours truly,

original signed by

John Martin
Manager, Regulatory

cc: Carol Moline, Director, Accounting and Treasury (AESO)
AESO STS Customers