



July 26, 2007

Sent via E-mail

Mr. Jamie Cameron
Applications Officer
Alberta Energy and Utilities Board
605 5th Avenue S.W.
Calgary, Alberta
T2P 3G4

Dear Mr. Cameron;

**Re: Board Questions on Alberta Electric System Operator (AESO)
Request for Board Approval to Commence a Negotiated Settlement
Process – Application # 1357161**

In response to the Alberta Energy and Utility Board (Board) letter of July 24 requesting clarification on a number of matters, please find below the AESO response to your questions.

Questions:

- a) which aspects of the Application the AESO considers will be included in the scope of the proposed negotiation process (including but not restricted to whether invoices submitted on an interim basis to date are included, as questioned by TCE),
- b) Which aspects of the Application (if any) the AESO considers to be outside the scope of the proposed negotiation process, and the process and deadlines by which applications will be submitted to the Board on any such issues, and
- c) With regard to the ATCO Power agreement, clarify its status, and whether the AESO considers this agreement to be within or outside the scope of the proposed negotiations, and
- d) If the AESO considers the ATCO Power agreement to be outside the scope of the proposed negotiations, clarify whether it will be filing a separate application for Board approval of that negotiated settlement and if so, the date by which such an application will be filed.

Answers:

- a) The scope of the negotiated settlement process is intended to include the provisions for the payment for Ancillary Services (which has the meaning

ascribed to in the Electric Utilities Act) when the AESO requires a Customer to operate its generating unit to provide such services (the "Ancillary Services Tariff") and when no existing contract exists. This Ancillary Services Tariff would be applicable during a state in which the AESO lacks sufficient Ancillary Services for the purposes of maintaining system security. The negotiations will also include the effective date of the final Ancillary Services Tariff, which may have the effect of modifying payments made for this service under the interim Article 11, providing the new Ancillary Services Tariff is effective prior to its approval date.

- b) As noted in a), the scope of the requested negotiated settlement process for the Ancillary Service Tariff is anticipated to generally encompass the attributes of and be in a form similar to the current interim Article 11. The AESO therefore anticipates only submitting one application for the Ancillary Service Tariff and including with this application the form of the settlement that may be required if the requested effective date is prior to the approval date. In regards to the process and deadline for completion of this negotiated settlement, this has not been determined at this time. A process and schedule will be provided as soon as it is available but no later than September 30, 2007.
- c) and d) The AESO does not intend to include the ATCO Power agreement in this process as it is anticipated that the provision for treatment of existing contracts for Ancillary Services compensation that presently exists in Article 11.2 will be maintained in the new Ancillary Services Tariff. As such, the AESO would consider the ATCO Power agreement to be an "existing contract with the AESO" as referenced in Article 11.2. The status of the negotiations of this agreement has not changed from that summarized in the AESO Article Amendment Application Status Report filed with the Board on May 4, 2007. In addition, the AESO is of the view that, consistent with the treatment of other contracts for ancillary services held by the AESO, it will not be necessary to file this agreement with the Board once executed.

Should you have any questions please contact me at (403) 539-2751 or by e-mail at heidi.kirrmaier@aeso.ca.

Sincerely,

"original signed by"

Heidi Kirrmaier
Vice-President, Regulatory