

**Title: Proposed Article 11 Amendments**

**Request:**

Please provide at least three representative samples which illustrate how compensation will be determined:

- (a) utilizing the proposed formula set forth in proposed Article 11.6(a) and (b); and
- (b) In circumstances where a customer can demonstrate foregone energy sales due to a TMR directive as contemplated in the last paragraph of proposed Article 11.6, as well as a narrative explanation clarifying proposed Article 11.6.

**Response:**

- (a) Please refer to Attachment AUC.AESO-001. Examples provided are as follows:

Scenario A:

- Coal generator is directed to provide 5 hours of TMR service

Scenario B:

- A gas generating unit is directed to provide 5 hours of TMR service
- The generating unit is fully depreciated therefore 25% of the initial cost of property plant and equipment is utilized in the calculation as per Article 11.6 (b)(i)(B)(2)

Scenario C:

- A gas generating unit is directed to provide 5 hours of TMR service
- This is the generator's third TMR directive in the rolling 12 month period, and as such, Article 11.6 (b)(iii)(B) applies

Scenario D:

- A hydro generating unit is directed to provide 5 hours of TMR service
- TMR compensation is the maximum of the TMR compensation calculated as per Article 11.6 (a & b) or the net opportunity cost related to foregone electricity sales as per the last paragraph in Article 11.6,

- (b) The last paragraph of Article 11.6 is intended to capture the situation where a hydro unit is directed to provide TMR service. Unlike thermal units, a hydro unit has the ability to save stored water for future generation opportunities. If the hydro unit is directed to provide TMR service, thereby using the hydro storage, the generator may be foregoing future generation opportunities. For instance, if a hydro unit was directed to provide TMR service when the pool price was \$30/MWh and provision of the TMR service caused a verifiable lost opportunity to generate in another period when pool price was \$50, the verifiable net opportunity cost would be \$50 less \$30 or \$20/MWh. The AESO considers compensation for verifiable net opportunity costs related to foregone electricity sales to be permitted under the Transmission Regulation. Please refer to Attachment AUC.AESO-001 for a representative sample.

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**Preamble:**

Clause 2.5 of the settlement agreement provides that “costs in respect of TMR Services at Rainbow Lake from December 16, 2004 until Board approval” of the agreement “remain interim for the purposes of ratemaking and subject to adjustment and finalization by the Board.” [emphasis added]

Paragraph 15(a) of the settlement application states that TMR services fall into one of two categories: Foreseeable TMR Services and Unforeseeable TMR Services.

Paragraph 15(c) of the settlement application indicates that TMR services provided by the Rainbow units are not considered Unforeseeable TMR Service and therefore fall outside the scope of the settlement. It also indicates that the AESO is still finalizing an agreement with ATCO Power.

Paragraph 17 of the settlement application states that the parties have agreed to “make adjustments to any payments for TMR Services that were requisitioned by the AESO after December 16, 2004 and where the need for such Service did not concern TMR Services directed from Rainbow Lake.”

Paragraph 21(d) of the settlement application refers to all costs incurred by the AESO for conscripted TMR Services from the Rainbow Lake facilities, which are to remain interim and may be subject to further adjustment.

It is the Commission’s intention to set out a schedule for finalization of the matters relating to the ATCO Power Rainbow Lake units.

**Request:**

- (a) Please confirm that the Rainbow Lake units are considered Foreseeable TMR Service. If not confirmed, please explain.
- (b) Paragraphs 15(c), 17 and 21(d) of the settlement application suggest that the ATCO Power Rainbow units are treated as being entirely outside the scope of the settlement agreement; however clause 2.5 of the settlement agreement could be interpreted as exempting from the settlement agreement only those Rainbow Lake costs made in respect of TMR Services obtained between December 16, 2004 and any approval of the settlement agreement (but not thereafter). Please

clarify the intent of the negotiated settlement agreement with respect to Rainbow Lake TMR Services.

- (c) Please set out the process anticipated to resolve the “adjustment and finalization” of the amounts contemplated in clause 2.5 of the settlement agreement (specifying the relevant steps, timelines for each step and a firm date for filing an application to the Commission).

**Response:**

- (a) Confirmed
- (b) The intent is to finalize through a commercial agreement with ATCO the compensation for TMR service provided by the Rainbow Lake units since December 16, 2004, to the date the agreement is in place. The agreement between ATCO and the AESO will also address compensation for future foreseeable TMR service from the Rainbow Lake units, beyond the date the agreement is in place.
- (c) The AESO expects a commercial agreement between AESO and ATCO addressing the matters noted in part (b) will be in place in the coming weeks. Assuming this to be the case, there is no need for Board approval of this agreement as the ability to enter into such commercial agreements is within the scope of the AESO’s authority. The AESO notes that any adjustment to ATCO’s TMR payments dating back to December 16, 2004 will be included in its 2007 deferral account process, and the associated reconciliation application is planned to be filed with the AUC in the fall of 2008. In the event ATCO and the AESO are not able to come to a commercial agreement prior to the approval of proposed Article 11, the AESO is of the view that compensation for Rainbow Lake TMR services (back to December 16 2004, and on a go forward basis) should be resolved through arbitration, consistent with what is specified in the application for "foreseeable" TMR services that can not be addressed through bilateral negotiations (i.e. per Article 11.5 and Schedule B).