



May 14, 2008

Submitted via e-mail

Alberta Utilities Commission
Utilities Division
Fifth Avenue Place
4th Floor, 425 – 1st Street SW
Calgary, Alberta
T2P 3L8

Attention: Jamie Cameron, Application Officer

Dear Jamie:

Re: AESO Reply Argument in Husky Oil Complaint Application on AESO Interim Fort Nelson Rider H (Application 1554646)

The Alberta Electric System Operator (AESO) provides the following reply argument on the above-noted application, in accordance with the schedule set out in the April 16, 2008 letter of the Alberta Utilities Commission (AUC).

In preparing this reply argument the AESO has considered the written arguments of BC Hydro, Harvest Operations Corp. (Harvest), and Husky Oil Operations Limited (Husky), all filed on April 30, 2008. These arguments provided no reasonable basis for the AUC to alter or rescind Order U2008-2, and the AESO submits that the Complaint filed by Husky should accordingly be dismissed pursuant to section 24(2) of the *Alberta Utilities Commission Act* (AUC Act).

In particular, no party has objected to the proposed approach to the recovery of costs related to the provision of incremental contract capacity to BC Hydro at Fort Nelson, which was the subject of the AESO's Interim Fort Nelson Rider H Application. Husky itself stated in its Argument (page 4), "Husky takes no position in this proceeding as to whether the AESO can lawfully take actions (including requiring TMR [transmission must run]) that have the effect of decreasing the reliability, or increasing the cost, of transmission service in Alberta in order to provide service to load outside of the Province....Husky similarly takes no position in this proceeding on the matter of who should bear the costs of additional TMR that may be necessary to accommodate service to load outside of Alberta....Assuming that the relevant revisions to OPP 501 will remain in effect and that the AESO will ensure compliance with them, Husky no longer opposes the AESO Application."

As the applicant Husky no longer opposes the AESO's Application, the AESO submits that its Complaint should be dismissed.

The AESO acknowledges the operational concerns that exist in the Rainbow Area and that were referred to in parties' arguments. As discussed in the AESO's Argument under the heading "Historical Reliability Concerns" (pages 3-4), the AESO has developed, and continues to develop, specific responses to changing circumstances that affect dispatch of TMR generation in the Rainbow Area. The AESO outlined its approach to addressing operational concerns in Information Responses HARVEST.AESO-002 (e), HOL.AESO-003 (d), and HOL.AESO-010 (a-b).

The AESO specifically notes suggestions that it attempt to contract additional units to provide TMR service in the Rainbow Area. At this time, the AESO does not consider the cost of contracting with an additional TMR generator to be either appropriate or reasonable, given that under revised OPP 501 the reliability of the Rainbow Area system has been essentially restored to the status that would have existed without the connection of the Harvest load, as discussed in Information Response HARVEST.AESO-002 (d). However, as discussed above, the AESO will respond to circumstances as they change in the Rainbow Area and, if appropriate, will investigate contracting with an additional TMR generator in the future.

The procurement of TMR from additional generators will also be assessed in the context of the medium-term options being investigated for supply in the Rainbow Area. As discussed in Information Response Comm.AESO-003, interim and long-term options for serving load in the Fort Nelson and Rainbow Lake areas are the subject of a planning assessment being developed jointly by the AESO, BC Hydro, and the BC Transmission Corporation. The recommended options resulting from that planning assessment will influence the nature and structure of the final rate application for serving incremental BC Hydro load which the AESO expects to bring before the AUC later this year.

In light of the historical and current practices of the AESO with respect to addressing operational concerns in the Rainbow Area, the AESO submits there is no requirement for direction from the AUC in that regard. In particular, Husky acknowledged in its Complaint (page 3), "AESO have always responded positively in order to preserve the historical operational methodology of the system in this area." In its Argument (page 2), Husky further acknowledges, "Assuming that those aspects of OPP 501 will remain in effect and that the AESO will ensure compliance with them, then the risk of adverse impact on the reliability of service to existing Rainbow Area customers should be mitigated." Based on Husky's satisfaction with both historical and current responses of the AESO to operational concerns in the Rainbow Area, the AESO submits that a formal direction from the AUC to more diligently address these concerns is not warranted.

In conclusion, the AESO submits that neither the applicant Husky nor any other party opposes the AESO's Application, and no party has provided evidence that warrants formal direction from the AUC with respect to addressing operational concerns in the Rainbow Area. Therefore, there are no grounds for the AUC to vary or rescind Order U2008-2, and the Complaint should accordingly be dismissed pursuant to section 24(2) of the AUC Act.

If you have any questions concerning the AESO's reply argument, please contact me at (403) 539-2465 or by e-mail to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO
Geoff Martin, Husky