



January 28, 2009

To Stakeholders:

Re: AESO Board Decision

Please find enclosed the AESO Board's decision on the AESO's Amended 2009 Business Priorities and Budget, and forecasts for the 2009 Transmission Line Loss Costs and Ancillary Services Costs.

I would like to thank Stakeholders for their participation in this years Abbreviated Budget Review Process. With the current challenges in the economic climate and the recent release of the Provincial Energy Strategy in December, the AESO Board and Management will be reviewing the AESO's business priorities and expenditures on an ongoing basis. Any resultant major changes to the AESO's business priorities or expenditures will be communicated to stakeholders as they occur.

Please feel free to contact me at (403) 539-2777 or Todd Fior at (403) 539-2505 should you have any questions or comments.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Harry Hobbs', written over a large, light purple decorative graphic that resembles a stylized sunburst or a series of overlapping curved lines.

Harry Hobbs
Chairman



AESO BOARD DECISION

Amended 2009 Business Priorities and Budget, Forecasted 2009 Transmission Line Loss Costs and Ancillary Services Costs

January 2009

CONTENTS

1.	Introduction	1
2.	Multi-Year Budget Review Process	2
2.1	The Process	2
2.2	AESO Board Key Findings	5
3.	Strategic and Operational Priorities	5
3.1	AESO Board Key Findings	6
4.	Amended 2009 AESO “Own Costs”	7
4.1	Increased 2009 Forecast Over Budget – Administrative and Other Industry Costs	7
4.2	AESO Board Key Findings	10
5.	Forecast Transmission Line Losses Costs and Ancillary Services Costs	11
5.1	AESO Board Key Findings	12
6.	Capital Costs	12
6.1	General Capital Costs	13
6.2	Special Capital Projects.....	13
6.3	AESO Board Findings	14
7.	Decision Overview	14

**ALBERTA ELECTRIC SYSTEM OPERATOR (“AESO”)
2008-2009 Business Plan and Budget
2009 Amendments
AESO BOARD DECISION 2009-BP-001**

1. Introduction

The *Transmission Regulation 86/2007* (the “T-Reg”) includes provisions addressing the consultation and approval of the AESO’s own administrative costs, ancillary services costs and transmission line loss costs. The T-Reg provides that the AESO must consult with market participants with respect to proposed costs to be approved by the AESO Board. It also provides that these costs, once approved by the AESO Board, must be considered by the Alberta Utilities Commission (“AUC”) as “prudent” unless an interested person satisfies the AUC otherwise.

The practice established by the AESO to carry out the consultation on these costs is the Budget Review Process (“BRP”). The BRP is a transparent stakeholder process which provides a prudence review with input from stakeholders. At the conclusion of the BRP, a recommendation with respect to the AESO’s own administrative costs, transmission line loss and ancillary services costs is provided by AESO Management to the AESO Board for approval.

On March 28, 2008 the AESO Board issued Decision 2007-BP-001. Decision 2007-BP-001 was the AESO Board’s approval of the AESO’s 2008 - 2009 Business Plan and Budget Document (“2008-2009 Business Plan”). The 2008-2009 Business Plan detailed the AESO’s 2008 and 2009 business priorities and related budgets.

As part of the AESO BRP for the 2008 and 2009 budgets, AESO Management consulted with stakeholders on a multi-year budget process. The multi-year budget process is outlined in more detail in Section 2 of this document and in Appendix D of the AESO's 2008-2009 Business Plan. An Abbreviated Budget Review Process ("ABRP") was also developed recognizing the need for a process to address any amendments to the AESO Board approved multi-year budgets and to deal with the AESO's forecasted transmission line loss and ancillary services costs.

AESO Management, following consultation with stakeholders and incorporating appropriate amendments arising from the consultation, prepared an AESO Board Decision Document (the "BDD") for submission to the AESO Board. The BDD contains detailed proposals with respect to proposed amendments to the AESO's 2008-2009 Business Plan as it relates to the 2009 business priorities and budget, forecasted transmission line loss and ancillary services costs for 2009. The BDD was provided to the AESO Board as well as to stakeholders and has been posted on the AESO's website. The AESO Board's Decision today (the "Decision") includes the AESO Board's decision on amendments to the AESO's 2009 business priorities and budget and forecasted transmission line loss costs and ancillary services costs for 2009. The Decision should be read in conjunction with the AESO's 2008-2009 Business Plan which is available on the AESO's website.

2. Multi-Year Budget Review Process

2.1 The Process

As a part of the BRP for the 2007 Business Plan and Budget, the AESO Board encouraged management to continue its initiatives toward a multi-year budget that would achieve cost and time efficiencies. AESO Management consulted and reached agreement with stakeholders on a two-year budget process. The 2008

and 2009 budgets were subsequently approved by the AESO Board in Decision 2007-BP-001. A component of the process provides for AESO Management to prepare a forecast of the AESO's administrative costs and general capital costs for the 2009 calendar year to determine if the original approved budget is sufficient for the AESO to achieve its business priorities. One of three options is then triggered:

- If forecasted administrative costs and general capital costs are below or in line with the approved budget amounts, no AESO Board approval is required;
- If forecasted administrative costs and general capital costs exceed the approved budget amounts, but the excess is less than 10% of the approved budget amount for administrative costs and 20% for general capital costs, AESO Management would request approval from the AESO Board of the forecast and subsequently issue a stakeholder communication; or
- If the forecast is in excess of 10% of the approved budget for administrative costs and/or 20% for general capital costs, AESO Management will review the new funding requirements with stakeholders through the normal BRP followed by a request for approval from the AESO Board.

The AESO's new forecasted 2009 administrative costs and general capital costs are within 10% and 20% respectively of the AESO Board approved 2009 budget amounts. Although a BRP was not required under the above options, AESO Management, with the support of the AESO Board, conducted an Abbreviated Budget Review Process (the "2008 ABRP") for the purpose of reviewing with stakeholders the AESO's amended 2009 business priorities and budgeted costs, and the forecasted 2009 transmission line loss costs and ancillary services costs.

As part of the 2008 ABRP two stakeholders, Alberta Direct Connect Consumer Association (“ADC”) and the Office of the Utilities Consumer Advocate (“UCA”), provided the AESO Board with written comments on the BDD. However, neither stakeholder found it necessary to meet with the AESO Board to present and discuss their written comments. Their comments relating to the 2009 amendments were considered in reaching this Decision. The written comments received from stakeholders have been posted on the AESO’s website. AESO Management will follow up with each stakeholder to further discuss their written comments.

This Decision focuses on the areas the AESO Board believes may be helpful to stakeholders, particularly those areas that are germane to its approval or are required to supplement the responses documented by AESO Management in the BDD. While the AESO Board took into consideration all stakeholder input, this Decision does not explicitly address all points raised by stakeholders as the AESO Board is of the view that many were sufficiently dealt with and documented throughout the process leading to the BDD. Stakeholder comments and AESO Management responses were compiled by AESO Management throughout the 2008 ABRP and can be found in Section 6 of the BDD.

This Decision was made at the October 23, 2008 AESO Board meeting at which the AESO Board was asked to approve, or amend and approve, as appropriate, the AESO’s amended 2009 business priorities and budget and forecasted 2009 transmission line loss and ancillary services costs. It also incorporates a subsequent Board decision in December 2008 on 2009 salary compensation for non-executive employees and an adjustment to its business priorities to accommodate the release of the Provincial Energy Strategy.

2.2 AESO Board Key Findings

The AESO Board believes the ABRP carried out in 2008 with respect to the AESO's proposed amended 2009 business priorities and budget and forecasted 2009 transmission line loss costs and ancillary services costs has achieved the objectives of the budget review process. In addition, the AESO Board believes that the ABRP has met the requirements of the T-Reg, Section 3(1), requiring that the AESO must consult with stakeholders that the AESO considers to likely to be directly affected by the approval by the AESO Board of the AESO's own administrative costs, transmission line loss costs and ancillary services costs.

3. Strategic and Operational Priorities

The business priorities as set out in the Amended 2009 Business Priorities and Budget document are founded on the AESO's five-year Strategic Plan 2006-2011 dated June 30, 2006 ("Strategic Plan"). The AESO's Strategic Plan is reviewed annually to ensure that the AESO's corporate direction remains appropriate. The Strategic Plan was reviewed with stakeholders as a part of the 2007 BRP and formed the foundation for the AESO's 2008-2009 Business Plan. Following review of the plan in 2008, AESO Management proposed amendments to the AESO's 2009 business priorities as summarized in Appendix A of this Decision.

ADC indicated in their written submission that the AESO should include a business priority for the development and implementation of a Demand Response Program to reflect the importance of how load's demand response can assist the reliability of the transmission system and operation of the energy market. AESO Management reviewed ADC's request and is in agreement that a business priority for Demand Response should be added to the Amended 2009 Business Plan and Budget document as follows:

“To work with stakeholders to develop, evaluate and make recommendations regarding demand response programs within the existing market framework”.

In addition as a result of the Provincial Energy Strategy issued in December of 2008, the AESO has amended its business priority for the preparation of the 20-Year Transmission Outlook and the 10-Year Transmission Development Plan. The amended priority indicates that the plans should be broader in total scope and consistent with the Provincial Energy Strategy. The amended priority is as follows:

“Prepare a long range Transmission Outlook and a 10-Year Transmission Development Plan consistent with the Provincial Energy Strategy.”

The amendments to the AESO’s 2009 business priorities will be accommodated through the AESO’s existing budget.

3.1 AESO Board Key Findings

The AESO Board is satisfied that the amended business priorities as outlined in the BDD are necessary to achieve the organization’s objectives in 2009 with particular focus on transmission planning to meet the Provincial Energy Strategy released in late 2008. It is apparent to the AESO Board that stakeholders recognize the need for the amended priorities. The AESO Board reiterates its support for effective and ongoing prioritization of the AESO’s business plan throughout the year to remain in alignment with the needs of stakeholders and the public interest.

The AESO Board endorses the amended business priorities for 2009 as summarized in Appendix A of this document and concurs with the inclusion of a business priority related to a Demand Response Program as outlined above.

4. Amended 2009 AESO “Own Costs”

The following sections discuss the amended 2009 AESO budget amounts (as detailed in the BDD) that are the subject of review in this Decision:

1. The increase in the AESO’s administrative component of general & administrative costs of \$6.0 million to a total of \$69.7 million as found in the AESO’s Amended 2009 Business Plan and Budget. The administrative costs are allocated to:
 - Transmission costs of \$ 52.3 million
 - Energy market of \$ 14.9 million
 - Load settlement of \$ 2.5 million
2. The increase in the AESO’s flow-through other industry costs of \$14.6 million to \$25.8 million as found in the Amended 2009 Business Plan and Budget.
3. The forecasted transmission line loss costs found in Section 5 of the AESO Board Decision Document of \$238.0 million for 2009.
4. The forecasted ancillary services costs found in Section 5 of the AESO Board Decision Document of \$289.7 million for 2009.

4.1 Increased 2009 Forecast Over Budget – Administrative and Other Industry Costs

The AESO’s forecasted 2009 administrative costs are \$69.7 million, which is \$6.0 million (or 9%) higher than the approved 2009 budget of \$63.7 million. The increase in the AESO forecasted administrative budget is primarily a result of the AESO’s requirement for additional consulting resources for 2009. The 2009 budget revisions proposed by AESO Management have been specifically

identified in the Amended 2009 Business Priorities and Budget document and are primarily a result of events that occurred subsequent to AESO Management's development, and the AESO Board's approval, of the 2009 budget contained in the original 2008-2009 Business Plan. A summary of the significant budget adjustments are outlined in Appendix B of this Decision.

A detailed analysis and presentation of the proposed increase to the AESO's 2009 administrative costs budget of \$6.0 million was provided to stakeholders and the AESO Board by AESO Management as part of the 2008 ABRP. AESO Management conducted an extensive review of its priorities to identify which priorities could be deferred. It was determined that no deferral of priorities at this time would be prudent. Based on its review and considering stakeholder comments, the AESO Board believes that the originally approved 2009 administrative costs budget was not adequate for the AESO to deliver on its amended 2009 business priorities and to meet the AESO's ongoing operations.

Over the last year, the AESO's ongoing operations have been impacted by various developments, including:

- an increase in the number and complexity of customer interconnections primarily as a result of wind development in the Province;
- the new AUC ISO Rules approval process that became effective in 2008 which has led to hearings on ISO Rules and the need to develop a standardized framework for the AESO's authoritative documents; and
- the need to increase support and maintenance of the AESO's aging information technology systems to meet the needs of the AESO and its stakeholders until new IT infrastructure is realized.

The Board notes that the extent and timing of the work to be performed on the AESO's information technology ("IT") infrastructure was underestimated in the two year budget. The AESO Board is satisfied with AESO Management's commitment to a more rigorous IT planning and reporting process that should

improve the reported differences between budgeted and forecasted amounts over the next planning cycle. It also notes that the requirement of additional funds to respond to the AUC rules process and wind interconnections will be dependent on the actualization of the assumptions made in these areas and that adjustments will occur if circumstances change in 2009.

In addition, as a part of the AESO Board's decision process the AESO Board considered events that occurred subsequent to the issuance of the Board Decision Document. The following two amendments to the AESO 2009 forecasted administrative costs were proposed:

- The Board Decision Document proposed a staff salary adjustment of 6% as a key budget assumption. Subsequent to the issuance of the Board Decision Document, AESO Management provided updated market information and analysis to the AESO Board which incorporated current economic developments. Based on this information, the per annum salary adjustment has been revised to 5%.
- On December 11, 2008 the Government of Alberta released its Provincial Energy Strategy. To align the AESO's 20-Year Transmission System Outlook and 10-Year Transmission System Plan with the Provincial Energy Strategy, additional consulting services will be required by the AESO.

The net impact on the AESO's 2009 budgeted total administrative costs as result of these subsequent amendments is effectively nil. The AESO Board believes that the \$400,000 reduction to the staff salary and benefit costs should be allocated to consulting costs as a provision for costs associated with transmission planning to meet objectives in the Provincial Energy Strategy. The Board does expect salary and benefit costs to be prudently managed to the revised figure.

Additional consulting costs will only be incurred if necessary to meet anticipated demands.

The AESO's other industry costs are forecasted to be \$25.8 million in 2009, which is an increase of \$14.6 million (or 130%) from the approved budget amount of \$11.2 million. Under the provision of the *Alberta Utilities Commission Act*, AUC operating and capital costs are recovered from natural gas and electricity market participants under its jurisdiction or any person to whom the AUC provides services. Accordingly, the AUC apportions a percentage of its costs to the AESO as an AUC administration fee for costs related to its energy market and transmission activities. "Other Industry Costs" are flow-through costs, which are non-discretionary costs for the AESO.

4.2 AESO Board Key Findings

The AESO Board notes the effort expended by AESO Management to inform stakeholders and to seek their input on the increased costs beyond that strictly required under the BRP. The AESO Board believes that a rigorous and transparent stakeholder process assists the AESO Board in its review.

With a view to the business priorities and strategic objectives described in the Amended 2009 Business Priorities and Budget document, and as further discussed above, the AESO Board approves as reasonable the increase in the AESO's 2009 approved budget for administrative costs of \$6.0 million, including the subsequent amendments discussed in section 4.1, and the increase to other industry costs, (non-discretionary flow-through costs) of \$14.6 million. The AESO Board understood that a multi-year budget process, in its initial experience, could lead to changes in the AESO's approved budgets. The value of the BRP can and will be measured by the increased accuracy and veracity of the forecasted business priorities and budgets over subsequent multi-year periods, should this be agreed to with stakeholders.

The AESO Board has directed AESO Management to closely monitor and report regularly to the AESO Board in 2009 on the impact of changing economic conditions on its business priorities and expenditures. AESO Management is in agreement, and in particular, will exercise continued vigilance with respect to “discretionary costs”. Any significant changes in the AESO’s business priorities or expenditures will be reported to stakeholders as part of the AESO’s regular quarterly reporting.

5. Forecast Transmission Line Losses Costs and Ancillary Services Costs

The AESO’s 2009 transmission line loss costs are forecasted at \$238.0 million, and the ancillary services costs are forecasted at \$289.7 million. Both of these are detailed in Section 5 of the BDD.

These estimates are a function of volume forecasts and market-based commodity pricing forecasts. The 2009 transmission line losses costs are forecasted to decrease to \$238.0 million from the 2008 forecasted amount of \$251.4 million. This is due to lower line loss volumes being forecasted in 2009 of 2.76 TWh versus 2.91 TWh in 2008 as a result of enhancements implemented to the transmission system.

Ancillary services costs are forecasted to increase to \$289.7 million in 2009 from \$274.7 forecasted for 2008. This increase is a result of a forecasted increase in prices to be paid for operating reserves in 2009 versus 2008, while operating reserve volumes are forecasted to be unchanged year over year.

5.1 AESO Board Key Findings

The AESO Board understands it is inherently difficult to forecast these items with precise accuracy as these costs are a function of volume forecasts and market-based commodity pricing forecasts. Volume forecasts tend to be more precise, as they are based on volumes (generation and load) which can be forecasted with a high degree of certainty over time. Commodity price forecasts are subject to greater variability as the forecasts are subject to various underlying factors (i.e. generator offer strategies, unplanned outages, load requirements, etc.) which themselves are variables. The AESO Board does believe the methodologies and assumptions utilized by AESO Management are reasonable. While the AESO Board believes the forecasts should ideally be as close to actual as possible, it is also mindful that these figures are estimates and “true-ups” will occur through the AESO’s deferral account reconciliation process once actual costs are determined.

The AESO Board thereby approves, as reasonable, the 2009 forecasted transmission line loss costs and ancillary services costs of \$238.0 million and \$289.7 million respectively.

6. Capital Costs

The AESO Board wishes to advise stakeholders that it believes the AESO’s IT systems and related infrastructure represent a central underpinning of the AESO’s business. Accordingly, with the advanced age of several components of the AESO’s infrastructure, it can be expected that significant investments in this area will be necessary in the future to meet IT system requirements for effective planning and operations, as well as for the provision of increased efficiencies in ongoing business services to stakeholders.

6.1 General Capital Costs

The AESO's approved general capital budget and forecasted capital costs for 2009 are \$7.3 million. It should be noted that the AESO deferred various capital projects from 2008 (Congestion Management, Generation Outage Coordination, Reliability Unit Commitment and FEOC) which were included in the AESO's 2008 general capital budget of \$8.2 million due to the timing of regulatory proceedings to approve ISO Rules and the timing of finalization of regulations being different than anticipated. As these projects are subject to regulatory approvals or, finalization of regulations, the project details for these projects can not be determined at this time with any accuracy.

As these projects are developed to an appropriate level and detailed cost information becomes available, AESO Management will review the funding requirements to determine if the project can be funded out of the AESO's general capital budget. If not, AESO Management will request additional funding which will be subject to the budget review process.

6.2 Special Capital Projects

Special capital projects are large, complex, multi-phased projects that require funding outside of the AESO's general capital budget. These include such projects as the System Control Centre, Energy Management System (EMS) Replacement, Dispatch Tool Re-architecture and Operating Reserve Market Redesign.

As part of the 2007 BRP, AESO Management committed to consult with stakeholders regarding any new proposed special capital project costs that were not part of the Capital Costs approved by the AESO Board in their Decision. As the details for these special projects are developed, including detailed cost

estimates, AESO Management will consult with stakeholders and request AESO Board approval for the required funding.

On July 3, 2008, AESO Management provided stakeholders with the details of a new proposed capital project, Dispatch Tool Upgrade (“DT Project”) that was not included in the 2007 BRP process. AESO Management requested a budget amendment to the AESO’s 2008 Capital Cost budget to add \$2.2 million for the DT Project. Stakeholders were asked to provide comments to the AESO on the DT Project by July 16, 2008. The AESO responded to the stakeholders comments on August 21, 2008. There were no stakeholder objections to the DT Project.

The AESO Board has considered both AESO Management’s request and the comments that were submitted by stakeholders.

6.3 AESO Board Findings

Based on the AESO Board’s review of the information provided to it by AESO Management related to the DT Project, the AESO Board endorses the DT Project and approves as reasonable the budget amendment of \$2.2 million to the AESO’s 2008 Capital Budget.

7. Decision Overview

In mid-November, the AESO Board directed AESO Management to reassess its 2009 budget requirements due to the changing economic environment. As a result, it was determined, at this point in time, there has been no reduction in the level of services required of the organization. Accordingly, on balance, having regard for all views and its own assessment, the AESO Board finds the amendments to the 2009 administrative costs budget to be reasonable. AESO

Management and the Board will closely monitor demands on the resources of the AESO during 2009 and make adjustments as appropriate.

The AESO Board trusts the BRP is viewed by stakeholders as a valuable process to achieve effective AESO budgets that balance cost efficiency with the ability to achieve the AESO's strategic goals and business priorities.

The AESO Board welcomes any comments from interested parties on improvements to the BRP, is open to meeting with stakeholders, and has requested AESO Management to continue its discussions with stakeholders toward ongoing process improvement.

Dated in Calgary, Alberta on January 27, 2009.

For the AESO Board

A handwritten signature in cursive script, appearing to read 'H. Hobbs', is written in black ink.

Harry Hobbs
Chairman

Appendix A – Summary of 2009 Business Priority Amendments

The purpose of this appendix is to summarize the amendments to the AESO's 2009 business priorities. This summary should be read in conjunction with the AESO's Amended 2009 Business Plan and Budget document that is included in the AESO's Board Decision Document dated September 29, 2008.

Strategic Objective - Overarching Objective

Addition: Enhance working relationships with stakeholders, government and related agencies to improve communications, and to gain procedural efficiencies and improve effectiveness.

Strategic Objective 1 - Stabilize the Market and Regulatory Frameworks

Addition: Initiate a multi-year project to improve and standardize the AESO's "authoritative documents" including the ISO Rules, Standards, AESO Tariff and Business Practices.

Strategic Objective 2 - Build Appropriate Transmission Capacity

Addition: Refine customer interconnection and related processes so as to increase efficiency and effectiveness and be clearly understood by participants.

Addition: Expand the system in the central-east area to meet the increasing needs to supply growing pipeline loads.

Addition: Continue the development of a more fulsome vision of the transmission system incorporating assessments of land use impacts, environmental factors, economics and market forces.

Addition: Participate in the development of supportive land use policy and policy implementation frameworks.

Amended: Prepare a long range Transmission Outlook and a 10-Year Transmission Development Plan consistent with the Provincial Energy Strategy.

Strategic Objective 3 - Comprehensive Risk Management Strategy

Addition: Initiate a review of the AESO's high level IT architecture and develop requirements for a new set of market systems to replace existing aging architecture.

Addition: Assess and determine customer needs for access to AESO information and develop a long-term information management solution to meet customer needs.

Addition: Continue with further enhancements to the Dispatch Tool architecture to stabilize system performance and to enable future advancements of Market initiatives.

Completed/deferred: Maintain credibility as an effective market operator by managing risks (various operating audits).

Strategic Objective 4 - Attract and Retain Skilled People

Addition: Initiate the development of a comprehensive workforce plan that includes an effective succession planning process for AESO employees.

Amended: Create an effective succession planning process for AESO employees to assure employees have a clear path for progression and the AESO can optimize talent in all strategic areas.

Strategic Objective 5 - Operate within Tight System Conditions and Enhance System Restoration Plans

Addition: Conduct area operating studies with particular focus on congested areas in order to make timely modifications to operating policies and procedures and accommodate customer interconnection and system upgrades.

Addition: Build and enhance simulation tools to enhance operator training.

Completed: Conduct blackout restoration drill in fall 2008 and implement new restoration training simulator.

Deferral: Develop and implement tools to support real time reliability assessments by the System Control Center (Generation Dispatch Forecast Tool/Voltage Stability Tool).

Completed: Undergo 2008 NERC Readiness Audit to identify gaps.

Appendix B – Significant 2009 Forecast to Budget Administrative Cost Changes

Consulting Project	Description	Change (\$)
1. Interconnections	<ul style="list-style-type: none"> The amount of wind projects, based on MWs, in the interconnection queue has increased from 6,000 MW to approximately 12,000 MW resulting in the significant increase in interconnection applications. As well, growing complexity with new load and generation applications and the associated regulatory processes are also increasing the interconnection process workload. At the time of preparation of the AESO's 2008 and 2009 budgets, the increase in interconnection application workload was not anticipated. 	<p>\$1.5 million increase</p> <p>(an increase from \$0.65 million to \$2.1 million)</p>
2. Regulated Inertie Initiative / HVDC Technology Integration	<p><u>Regulated Inertie Initiative</u></p> <ul style="list-style-type: none"> To take the study on the benefits of additional interties to the next level, senior consulting resources are required to coordinate activities inside the AESO, with Alberta electricity industry stakeholders, and with BC industry participants and stakeholders (\$450,000). <p><u>HVDC Technology Integration</u></p> <ul style="list-style-type: none"> HVDC technology has the ability to transmit large amounts of power over long distances with lower capital costs and with lower losses than current AC technology. As this is one technology option for longer length transmission reinforcements, the AESO needs to augment its understanding of how HVDC technology could be integrated into the current transmission system (\$150,000). 	\$0.6 million increase
3. Transition of Authoritative Documents	<ul style="list-style-type: none"> The purpose of this initiative is to develop a framework for the AESO's authoritative documents, prepare a plan to implement a fully functional framework for all AESO authoritative documents with creation/conversion of new/existing authoritative documents into the new format/structure as necessary. The high level outcome will provide stakeholders with clarity and transparency of the ISO Rules in regards to accountability of the AESO, obligations of market participants and impacts to market participants for non-compliance. 	\$0.8 million increase
4. Alberta Utilities Commission ISO Rules Approval Process	<ul style="list-style-type: none"> Effective January 1, 2008, as a part of the Alberta Utilities Commission's (AUC) responsibilities under the <i>Electric Utilities Act</i>, new and amended ISO Rules are required to be filed with the AUC before becoming effective. As a result of the requirement, market participants can object to a proposed ISO Rule or an amendment to an ISO Rule before it becomes effective. It was anticipated that there would be objections to proposed/amended ISO Rules as a result of the new legislation but that very few objections would proceed to a hearing as a result of the new process. Experience to date this year indicates that more ISO Rules will require a hearing than was anticipated given the number of proceeding that are currently under way relating to ISO Rules objections. 	\$0.5 million increase (includes \$.25 million related to additional legal costs)
5. IT Initiatives	<ul style="list-style-type: none"> Many of the AESO systems are aging and consequently require increased support and maintenance to keep them running effectively and efficiently. The AESO is in the process of assessing and making considerable investments in replacing and upgrading several of these systems. During this time the AESO has augmented its support and delivery teams with additional consulting expertise to ensure the older systems are maintained effectively at the same time new development is underway. 	\$2.1 million increase

AESO Budgets



(\$ million)	2009 Amended Budget ¹	2008 Budget ²
Wires ³	486.3	474.7
Ancillary services	289.7	274.7
Line losses	238.0	251.4
Other industry	25.8	9.1
Administrative	69.7	60.8
Interest	2.9	2.9
Amortization	13.0	10.8
Total Operating Costs	1,125.4	1,084.4
Capital	7.3	8.2

¹ AESO Board approval as published in the AESO Board Decision 2009-BP-001 in January 2009

² AESO Board approval as published in the AESO Board Decision 2008-BP-001 in March 2008

³ Submitted by the AESO to the Alberta Utilities Commission as part of a General Tariff Filing, not approved by the AESO Board

Operating Cost Recovery



(\$ million)	2009 Amended Budget	2008 Budget
Transmission	1,094.0	1,061.6
Energy market	26.4	16.5
Load settlement	5.0	6.3
Total Operating Costs	1,125.4	1,084.4

Commodity Prices



	2009 Forecast ¹	2008 Forecast ¹
Average Pool Price (\$/MWh)	84.43 ²	84.81
Average Gas Price (\$/GJ)	8.55	7.51
Average Market Heat Rate (GJ/MWh)	9.92	11.29

¹ Based on the July 28, 2008 EDC Associates Ltd. commodity price forecast (ESP Volume 8 Issue 30)

² Incorrectly stated as \$84.61/MWh in section 5 of the AESO Board Decision Document dated September 29, 2008