



November 3, 2006

SENT VIA EMAIL

Alberta Energy and Utilities Board

640 – 5th Avenue SW
Calgary, Alberta
T2P 3G4

Attn: Jamie Cameron, Application Officer

Dear Jamie:

Re: AESO 2007 General Tariff Application

Please find attached the Alberta Electric System Operator's ("AESO") 2007 General Tariff Application, submitted to the Alberta Energy and Utilities Board for approval in accordance with Section 30 of the Electric Utilities Act.

This is comprehensive tariff application, comprising the following components for the 2007 test year:

- Revenue Requirement
- Rate Design
- Terms and Conditions of Service
- Response to Outstanding Directions
- Supporting Appendices

Appendix D containing supporting data, will be submitted within the next few days.

Please contact me at (403) 539-2751 with any questions or concerns.

Sincerely,

Signed by Heidi Kirrmaier

Heidi Kirrmaier
VP, Regulatory
Copy to: Interested Parties

ALBERTA ELECTRIC SYSTEM OPERATOR (“AESO”)

2007 GENERAL TARIFF APPLICATION

November 3, 2006

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1 APPLICATION

ALBERTA ENERGY AND UTILITIES BOARD

IN THE MATTER OF the *Alberta Energy and Utilities Board Act*, R.S.A. 2000 c. A-17

IN THE MATTER OF the *Electric Utilities Act*, S.A. 2003 c. E-5.1

AND IN THE MATTER OF an application for the approval of (a) certain 2007 Forecast revenue requirement amounts which are to be recovered through rates, and (b) terms and conditions for system access service set forth in the tariff of Alberta Electric System Operator

INTRODUCTION

1. In accordance with Section 30 of the Electric Utilities Act (“EUA”), the Alberta Electric System Operator (“AESO”) applies to the Alberta Energy and Utilities Board (the “Board” or “EUB”) for approval of its 2007 Tariff, which includes terms and conditions of system access service, and rates for all classes of service that recover the current 2007 Forecast Revenue Requirement, which includes forecast costs related to transmission wires, ancillary services, transmission line losses and AESO operations (i.e. “AESO Own Costs”).
2. The total Forecast Revenue Requirement for 2007 is \$872.5 million. Table 1.1 provides an overall summary of the 2007 Forecast Revenue Requirement components as compared to prior years.

Table 1.1 Summary of AESO 2007 Forecast Revenue Requirement

	2007 Forecast (\$M)	2006 Approved & Updated Forecast (\$M)	2005 Actual (\$M)	2005 Approved Forecast (\$M)
Wires Costs	445.2	439.5	417.5	427.2
Ancillary Services	184.5	150.6	189.6	137.7
Losses	196.0	131.0	201.8	181.0
AESO Own Costs	46.8	37.7*	35.6	37.0
Revenue Requirement	872.5	758.8	844.5	782.9

* AESO 2006 Own Costs reflect updated forecasts as filed in Application No. 1420890 “AESO 2006 Own Costs Update”

BACKGROUND

3. The AESO is a statutory, non-profit corporation established by subsection 7(1) of the EUA. The AESO must be managed so that no annual profit or loss results from its operations. As such, the AESO is seeking approval of these 2007 forecast amounts for rate setting purposes, recognizing that actual costs will be recovered from customers through the use of deferral accounts, which are the subject of a separate approval process.
4. In 2005, the AESO formed a stakeholder advisory committee - the Budget Review Committee ("BRC") - comprising representatives from the AESO, EUB and the stakeholder community, to address matters related to AESO initiatives that will drive AESO Own Costs for 2006 and 2007. This process evolved into the AESO Budget Review Process ("ABRP") for consideration of the 2007 budget, and expanded this process to capture the review of AESO 2007 Strategic Initiatives, General and Administrative Costs, General Capital, Losses Costs, Ancillary Service Costs, and Other Industry Costs. The AESO 2007 Budget summarized in this application was approved by the AESO Board on October 19, 2006.
5. In respect of the Phase II component (i.e. the tariff, comprising rates and terms and conditions) the AESO also carried out extensive stakeholder consultation, starting late 2005, resulting in a tariff that was designed and evolved in a transparent way. A complete record of the consultation is available to the public on the AESO's website. This process allowed both stakeholders and the AESO to benefit from understanding their respective views on matters being addressed throughout the process prior to the AESO filing the Application.
6. The AESO filed its last tariff application January 31, 2005. Approval of the resultant 2006 tariff was granted in Decisions 2005-096, 2005-132, and 2005-133 and Order U2005-464. The rates and terms and conditions proposed in this 2007 application are created in large part to respond to directives in these decisions, and also in consideration of stakeholder input gathered through a

variety of consultation processes (described in more detail in Section 3 of this application).

APPLICATION CONTENT

7. A discussion of each of the 2007 Forecast Revenue Requirement elements and variance explanations for the 2006 and 2007 Forecast years, is summarized in Section 2 of this Application. The 2007 demand and energy forecast is made in consideration of the most recent annual forecast cost components, in addition to other factors that influence the 2007 Forecast level. This section also describes the ABRP, which provides significant support for the forecast 2007 AESO Own Costs, ancillary services and transmission line loss costs. These components of the 2007 revenue requirement were reviewed with stakeholders and ultimately determined by the AESO Board. A background explanation of the AESO's Demand and Energy Requirements Methodology has been prepared and is found in Appendix B to this Application.
8. Section 3 provides an overview of stakeholder consultation held in respect of the Phase II matters prior to filing this application.
9. Section 4 describes the proposed changes to the rates. As noted above, the rate proposals herein respond to previous EUB directives and stakeholder input.
10. Section 5 of the Application provides further details concerning the calculations used to determine the applied-for rate levels.
11. The AESO's proposed changes to its Terms and Conditions of Service are discussed in Section 6. Like the rate proposals, these proposals also respond to previous EUB directives and stakeholder input.
12. The complete proposed 2007 Tariff, including both rate schedules and terms and conditions of service, is provided in Section 7.

13. Section 8 addresses outstanding matters. It contains a complete list of, and the status of the AESO's response to outstanding Board Directions and other outstanding matters not addressed elsewhere in the Application.

RELIEF REQUESTED

10. Based on the Application and accompanying material, the AESO requests:
 - a. Approval of its 2007 Forecast Revenue Requirement amounts for wire costs, ancillary services, transmission line losses, and AESO Own Costs for 2007 rate setting purposes;
 - b. Confirmation from the Board that the AESO's entire 2007 Forecast Revenue Requirement is subject to deferral account treatment;
 - c. Approval of the proposed tariff in Section 7 including new rate schedules and changes to the terms and conditions of system access service. The AESO requests that its proposed tariff become effective April 1, 2007;
 - d. Confirmation from the Board that the AESO shall continue to employ its existing Rate Riders B and C and annual deferral account reconciliation process for the calculation of rates and the recovery of all actual incurred costs excluding losses until such time as the Board approves changes to those processes; and
 - e. Confirmation from the Board of its acceptance of the AESO's responses to outstanding matters.
 - f. In light of the stakeholder involvement in development of the rates and terms and conditions in this Application, that the Board (in accordance with IL-98-04 Revised February 4, 2003) permit the AESO to engage in further discussions - starting as early as two weeks after the Board's receipt of this Application - with interested parties, the objective of which will be to establish whether and if so, how the issues which the Board may ultimately be requested to decide

may be limited or reduced, relative to the totality of the Application. This may take the form of a settlement, partial settlement, or another form as interested parties may agree. The AESO requests that the Board provide a determination in this regard by November 16, 2006.

ALL OF WHICH is respectfully submitted this 3rd day of November, 2006.

Alberta Electric System Operator

Per: _____

Heidi Kirrmaier
Vice-President, Regulatory