



December 20, 2006

Ms. Colleen Fairhead
Alberta Electric System Operator
2500, 330 – 5th Avenue S.W.
Calgary, AB
T2P 0L4

Dear Ms. Fairhead:

On November 29, 2006, the AESO released a “Market Policy Implementation Phase I – Update, Options and Recommendations” paper (“the Paper”). The Paper addresses alternatives to the implementation of the Transmission Must Run (TMR) and Imports aspects of the AESO approved “Quick Hits” rules (“approved rules”), in the absence of changes to the Transmission Regulation. EPCOR Utilities Inc. (EPCOR) is pleased to provide the following comments.

EPCOR commends the AESO for taking initiative in developing alternatives to the approved rules. Given that timely changes to the Transmission Regulation are unlikely, the development of alternatives for TMR and Imports can allow the implementation of the “Quick Hits,” an important aspect of the Department of Energy’s June 2005 Policy Paper. Progress in implementing the approved changes from the June 2005 Policy Paper should provide some future certainty and stability to Alberta’s electricity market. In developing the alternatives for TMR and Imports, the AESO has attempted to recreate the approved rules without re-opening any policy issues previously settled and incorporated in the approved rules. EPCOR supports this approach which should allow for timely implementation of the “Quick Hits” package.

EPCOR supports the recommendations the AESO has made in the Paper and provides the following specific comments.

Transmission Must Run Impact on Pool Price

EPCOR supports the Transmission Limiter Dispatch option, recommended by the AESO, as this option achieves the goals of the approved rule. Specifically, this option includes effective full reconstitution of the pool price and should eliminate any downward pressure on pool prices resulting from the need to dispatch TMR. The Transmission Limiter Dispatch option is a practical solution that could be a permanent solution on TMR, as it is simpler than the approved rule because it eliminates the need for actual mathematical price reconstitution. As this option complies with the current Transmission Regulation and could be a permanent solution, its implementation would eliminate the need for changes to the Transmission Regulation.

While, in principle, EPCOR believes that the full costs of TMR should be borne by the AESO to provide proper and effective signals for transmission development, EPCOR recognizes that this significant policy issue was addressed during development of the approved rules. Under the approved rules, suppliers were effectively paying for dispatch down as marginal suppliers were not dispatched due to the need for TMR. EPCOR, therefore, accepts the AESO’s proposal that suppliers pay for the dispatch down service.

The second option, the TMR Price Modifier, is inferior to the Transmission Limiter Dispatch option as it only achieves partial pool price reconstitution and is, therefore, only an interim solution. Given the

uncertainty regarding changes to the Transmission Regulation, it would be prudent to implement a full and wholesome solution at this time.

Imports as Intra-Alberta Generators

EPCOR believes that it is important to address the downward pressure on pool prices that results from imports offering at zero dollars. However, EPCOR recognizes that intent of the policy from the June 2005 Policy Paper was not only to rectify this downward pressure on price, but also to treat imports as much as possible the same as intra-Alberta generators. Given the limitations imposed by the fact that imports are not dispatchable, EPCOR agrees with the AESO's recommendation to maintain the status quo pricing of imports, while enforcing the T-2 and must offer/must comply aspects of the "Quick Hits" with respect to imports.

EPCOR, however, stresses the need for the AESO to initiate the necessary discussions and consultation regarding the interties, including dynamic scheduling on the BC-AB intertie, as quickly as possible to ensure that the Imports issue is dealt with in a timely manner. EPCOR encourages the AESO to establish a plan and timeline to deal with this issue.

Other Comments

EPCOR would like to stress that the original "Quick Hits" package was developed and contemplated as a package, including the merit order stabilizers (T-2 and must offer/must comply), payments to suppliers on the margin and improvements to pool price fidelity (TMR price reconstitution and the treatment of import as intra-Alberta generators). EPCOR would not support the implementation of the merit order stabilizers and payments to suppliers on the margin without a resolution of the TMR and Imports issues. EPCOR recognizes and accepts the need to further explore options for Imports and, therefore, accepts the maintenance of the status quo for Imports, as discussed above. However, EPCOR would not support the implementation of the "Quick Hits" without a solution for TMR price reconstitution.

EPCOR encourages the AESO to implement the "Quick Hits" package, including the proposals on TMR and Imports included in the Paper, as soon as possible. EPCOR looks forward to additional information from the AESO with respect to this initiative.

EPCOR again commends the AESO for the effort that has been put in to resolving this outstanding and important issue. EPCOR appreciates the opportunity to provide its comments on this initiative. Please contact me at (780) 412-3940 if you have any questions or wish to discuss EPCOR's comments.

Sincerely,

Sian Barraclough
Manager, Regulatory Affairs