



Wholesale Market Policy Task Force Members

Alberta Electric System Operator
2500, 330-5th Avenue SW
Calgary, AB
T2P 0L4

Alberta Department of Energy
North Petroleum Plaza
7th floor, 9945-108 St
Edmonton, Alberta Canada
T5K 2G6

October 19, 2005

Dear Sirs:

The Credit Sub-Committee, a sub-committee of the Wholesale Market Policy Task Force (“WMPTF”), was established in April of 2004 to examine the following issues:

- i) The current and future appropriateness of the ISO rules and any other related AESO credit rules, policies or requirements;
- ii) The impact of changes in the wholesale power design on the AESO credit requirements; and
- iii) Overlapping credit requirements in the Alberta power market.

While the Credit Sub-Committee periodically has reported on progress, it was awaiting the distribution of the final integrated market policy paper by the Alberta Department of Energy (“DOE”) prior to reporting back to the Wholesale Market Policy Task Force members, the (“DOE”) and the Alberta Electric System Operator (“AESO”) on the three issues identified.

That DOE paper, *Alberta’s Electricity Policy Framework: Competitive – Reliable – Sustainable* (“Policy Paper”) was distributed on June 6, 2005. The Credit Sub-Committee has reviewed the recommendations and now is in a position to report on its mandate.

On the first issue identified, the current and future appropriateness of the ISO rules and any other related AESO credit rules, policies or requirements; the Credit Sub-Committee has reviewed the rules in detail and is prepared to make a number of key recommendations. A discussion paper to stakeholders containing these recommendations will be circulated no later than October 19, 2005. Once comments are received from stakeholders, recommendations will be finalized, and any proposed changes will then be subject to the ISO rules changes process.

On the third issue, the Credit Sub-Committee has noted that the mandate for this analysis was particularly broad, and would involve dedicating a significant amount of resources and time to achieve pragmatic results and recommendations. It also noted that there are some ongoing initiatives in the Alberta market aimed at making the use of credit capital more efficient and timely. For these reasons, it was determined that, barring further direction, the Credit Sub-Committee would suspend any further work on this issue.

Given that the Policy Paper now has been delivered, this letter primarily addresses the second issue, the impact of changes in the wholesale and retail market designs on the stakeholder credit requirements, and principally the impact on the AESO credit requirements. The Credit Sub-Committee has worked diligently with AESO staff to understand the recommendations put forth in the Policy Paper and to determine the impact on the credit requirements of stakeholders as a result of the proposed changes outlined in the paper.

It should be noted that the AESO's credit requirements have been developed to mitigate credit risk in the **Real Time Energy Market**. Credit risk in the **Real Time Energy Market** is the risk that a net load participant will fail to pay for the net physical energy they received ("Receivable Risk"). It is our understanding that the Policy Paper issued by the DOE only contemplates changes to the real time market, with no intent to implement a real time market in conjunction with some form of day ahead or capacity market.

Based on this understanding, our preliminary analysis concludes that the contemplated changes have limited impact on energy market participant credit requirements. The impact is reduced to how the AESO will determine (quantify) its existing credit exposure or receivable risk. Based on the Credit Sub-Committee's review of the Policy Paper and given our understanding to date, it is the belief of the Credit Sub-Committee that also there will be no significant changes in the nature of the credit requirements of wholesale energy market participants as a result of the proposed changes put forth by the DOE. The Credit Sub-Committee feels that there should be no significant increase, or decrease, to the amount of credit risk in the wholesale electricity market, individual participant credit exposures to the AESO may increase, decrease or remain unchanged depending on the impact of the wholesale market changes being proposed and the subsequent participant behaviors post implementation of the wholesale market changes

We would like to bring to the attention of the DOE our thoughts on a change proposed in the Policy paper, not related to the changes proposed to the wholesale energy market, which will have credit implications to stakeholders. Changes to allow for the self procurement of ancillary services may impact energy market participant who decide to self procure. This change will likely introduce credit requirements to those participants who decide to self procure ancillary services as a result of the reallocation of credit risk from the AESO, currently the sole procurer of ancillary services to those participants who decide to self procure.

The Credit Sub-Committee acknowledges that there are many topical areas of the wholesale market policy recommendations, some of which will change how companies will operate under the AESO rules. We will continue, as required, to work with the DOE and the AESO on the implementation of the proposed changes to the wholesale electric market and will bring to the attention of the DOE and the AESO any unidentified impacts to stakeholder credit requirements as a result of the implementation of the proposed changes.

Yours truly,

Signed:

“David Erickson”

Chair, Credit Sub-Committee

Senior Vice-President and Chief Financial Officer, AESO