



January 31, 2008

To: Market Participants and Interested Parties

**Re: Phase I Market Policy Implementation Update**

The Phase I Market Policy (Quick Hits) rules and IT systems were successfully deployed on December 3, 2007 and have been fully operational for almost two months now. Over the next several months, additional software upgrades and fixes will be completed in order to provide additional functionality and to address several issues identified by market participants and/or the system operator. This letter is intended to update participants on our progress with respect to these matters.

In early February we are planning three enhancements to the Energy Trading System (ETS). The first will provide greater flexibility for participants to restate Available Capability (AC) for all periods through their Outage Scheduling tab while retaining the ability to change their AC within the seven day forecast period through their submission screens. The second will ensure that Importers only receive Acceptable Operational Reason (AOR) warnings if AC is changed within the T-2 timeframe and the third will correct the Historical Trading Report.

In late February or early March we expect to start providing a real-time Dispatch Down Service (DDS) report that will provide transparency with respect to the volume of surplus DDS offered into the market and, by the end of March, we plan to provide further enhancements to DDS visibility along with file upload capabilities for ETS. In the interim, we have posted two DDS reports and the Reference Price on our website under Market and System Reporting 'Quick Links'. These reports provide visibility of historical DDS costs as well as offer and dispatch volumes which provide some insight into the operation of the DDS market.

Our first priority, however, is to correct the price-spike issues that some participants have noticed since the implementation of Quick Hits. Several short duration price spikes have incorrectly appeared within the System Marginal Price (SMP) report when energy is released into the merit order as a result of a DDS dispatch down/off or an energy restatement within the current hour. These problems are currently being corrected manually, and in real-time (within seconds or minutes), by the system controller. We are aware of the potential adverse effects any price fidelity issue can have on the market and, accordingly, we are working seven days a week to develop, test and implement a more dependable solution.

Given the priority, additional resources have been directed toward the resolution of the price-spike issue and, consequently, the software upgrades required to calculate the Payments to Suppliers on the Margin will not be implemented in February. As stated in our November 15, 2007 letter to participants, these uplift payments to suppliers on the margin are effective December 3, 2007 and will be allocated to the appropriate invoice for that month retroactive to the specified production period when the month is resettled. For example, December 2007 production will be resettled in April 2008, January 2008 production will be resettled in May 2008 and February 2008 production will be resettled in June 2008. The AESO would like to assure participants that we have the data required to perform the settlement of these uplift payments.

Please note that all settlement other than uplift payments to suppliers on the margin will occur in the normal fashion and timeline.

In conclusion, we are working diligently to resolve these issues and we would like to thank participants for their cooperation. Your continued feedback enables us to identify and resolve these issues as expeditiously as possible. Sandra and I will update you with our next progress letter on or before February 29. If you have questions regarding any of the above please contact Doug Simpson at 539-2494.

Sincerely,

*“original signed by”*

Cliff Monar, VP Market Services

cc: Sandra Scott  
VP, Information Technology