



22 April 2005

Ms. Colleen Fairhead
AESO
2500, 330 - 5th Ave SW
Calgary, AB T2P 0L4

Via Email Only to colleen.fairhead@aeso.ca

Dear Ms. Fairhead:

Re: Powerex Corp.'s Comments on Export Must Run (XMR) Service

Powerex supports the AESO's attempts to make additional export transmission service available through an Export Must Run (XMR) Service. There are several issues, as the AESO points out in its Discussion Paper, which may make XMR, as proposed, a difficult undertaking. As an alternative, Powerex proposes that the AESO continue to assess the firm available transfer capability (ATC) rating as it does now and in addition consider providing an interruptible transmission product which could be implemented more quickly and might prove easier to administer than the proposed XMR service.

Given the abundance of storage hydro generation in the Pacific Northwest, many market participants in this region are willing to accept an interruptible energy product on an hourly basis for a small discount to a firm product. The AESO would not be jeopardizing its reputation as a reliable supplier if it identified a certain portion of its exports as interruptible and these exports were sold to counterparties as such. On an hour-ahead basis, the AESO could forecast the amount of Southern Alberta generation likely to be available for the upcoming hour (including expected wind generation and lower capacity factor generation which is expected to be in-merit for the upcoming hour). Based on this expected Southern generation, the AESO would estimate the additional amount of transmission that could be made available on an interruptible basis. This interruptible transmission could then be posted hourly and separately from the firm ATC which would continue to be calculated as it is now.

It is Powerex's belief that this type of XMR structure, as opposed to the proposed structures, will address the AESO's concerns regarding (i) inequity of restatement ability between base load units, non-XMR units and XMR units in that under the interruptible transmission option all of the Southern generators will have the same restatement ability; and (ii) inadvertent downward pressure on market prices (XMR units offered in at \$0) because the Southern generators will continue to offer as they do now.

One issue that would need to be addressed with interruptible transmission service is how the AESO would determine which exports are firm versus interruptible in the event of multiple exporters. In any event, the exporting participant would need to know at the time of dispatch whether the export service being provided to them is firm versus interruptible, or what portion of it is firm versus interruptible, so that the participant could market it as such. Powerex offers two possible solutions to this issue:

1. If the market rules are changed in the near future to allow imports/exports to set price, the allocation of the transmission capacity could be determined on the basis of highest priced export bids receiving firm service and subsequent lower-priced export bids receiving the interruptible transmission capacity.
2. Another option that the AESO may consider is to dispatch exports as it currently does but assign the firm versus interruptible service on a pro rata basis. The disadvantage of this alternative is that participants would likely end up with odd lots of firm versus interruptible service each hour which they would then have to market separately. This may or may not be considered a problem for different market participants. Powerex would not see it as a problem.

Powerex supports the efforts to increase export capacity from Alberta and is interested in working with the AESO and other stakeholders to reach a beneficial, workable solution. If you have any questions or comments regarding Powerex's comments on XMR, please feel free to contact me at 604.891.6051 or my colleague Patti Smith at 604.890.6017.

Sincerely,

Tom Bechard
Alberta Portfolio Manager

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