



THE POWER OF POSSIBILITY

May 24, 2005

Dear Stakeholders:

**Re: 2006 Loss Factors Transition Decision**

The Alberta Electric System Operator would like to share our decision about a transition period for loss factors. The AESO wishes to acknowledge the extensive consultation and input received from a working group of stakeholders in arriving at this decision.

After much deliberation, the AESO has decided it will not propose a loss factor transition plan in implementing the 2006 loss factor methodology. As a courtesy, the AESO has had advance conversations with the parties affected most by this decision.

The AESO identified several considerations during the decision-making process. They are outlined below:

**Lack of Stakeholder Support**

At the May 2, 2005 Loss Factor stakeholder meeting the AESO and Maxim each presented transition plans designed to mitigate the effects of large changes in loss factors beginning in 2006. Stakeholders at the meeting were clearly divided into two groups: 1) those supporting transition (who were also paying more in loss factors than before) and 2) those opposed to a transition (who were generally paying more under a transition plan.) Those who opposed the transition at the meeting outnumbered those who supported it by about a three to one margin.

**Regulatory Issues**

When making the transition from 2000 to 2001 on a new loss factor process, the EUB took under advisement and subsequently denied a transition or deferral on changes to loss factors. The AESO believes the Regulatory conditions are similar in 2006 as they were in 2001, and would not expect the EUB to support a 2006 transition.

**Advance Notice**

Generators have had opportunity to be aware that loss factors were going to change in 2006. Generators knew the five-year period under the current methodology was coming to a close on December 31, 2005. The Transmission Policy was issued in November of 2003 and it indicated the loss factor methodology was going to change. And upon the passing of the Transmission Regulation in August 2004, it was again clear that a loss factors would change for participants.

The regulation clearly stated that loss factors were subject to a compression envelope and that the loss factor calculations were to be based on a generators impact on average system losses. From this information alone it would be evident that large credits and large charges would not exist starting in 2006.

**Unintended Effects**

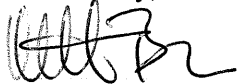
New generators will be connecting to the AIES during the next two years. Under a transition plan these generators would be required to contribute funds to other generators receiving payments under the transition plan. New units may view this as a barrier to entry to the market as well as being unfair.

**Limited Ability to Assess Financial Impact**

While AESO is able to estimate the financial impacts of changes in loss factors to specific generators, the AESO is unable and unwilling to conduct detailed financial analysis on the myriad of other market or business forces that will impact generating companies in 2006 and beyond. Such an analysis is beyond the scope of the AESO mandate and not likely to be supported by stakeholders.

Again, thank you for your input on this matter. Please contact myself at (403) 539- 2614 or e-mail [rob.baker@aeso.ca](mailto:rob.baker@aeso.ca) if you have any questions about the AESO's decision.

Yours truly,



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