

March 10, 2005

To: Loss Factor Stakeholders

Re: Loss Factors Initiative

Thank you for attending our March 8<sup>th</sup> 2005 meeting. There was plenty of good discussion and debate however we did not complete our planned agenda, particularly regarding the Loss Factor Rule, and several issues remain outstanding.

Our consultant has recommended a technical methodology that meets the 'agreed to' principles established prior to the evaluation in the autumn of 2004. The AESO has accepted the consultant's recommendation, referred to as the 50% Area Load Methodology. A majority of participants verbally accepted the recommendation, yet many have not confirmed acceptance in writing. In you have not already done so, I am asking again to please confirm your position on the technical methodology in writing.

Since the shadow loss factors were published in January, stakeholders that previously did not participate in the discussion on the principles and evaluation have expressed dissatisfaction, both with the principles used in the evaluation and with the methodology itself. While it is problematic that these concerns have arisen late in the process, it is the AESO's desire to address the concerns. Yet the conflict with the project schedule remains.

I am sending this letter to summarize the AESO's present concerns and outline a modified process in order to achieve our obligation to deliver loss factors for 2006 as required by the Transmission Regulation.

The AESO is in a position where time and available resources will impact our ability to deliver loss factors for January 1<sup>st</sup> 2006. We must set a technical methodology by April 1<sup>st</sup> and a loss factor rule by May 15<sup>th</sup>.

The first concern for AESO is consultant time. At your request, we have asked our consultants to address concerns that were beyond the original scope of work. Keeping with our existing practice, the additional costs will be allocated to the Line Loss Tariff Methodology Fund. An estimate of the additional costs beyond the original scope of work is provided in the following table.

**Additional Loss Factor Consultant Costs**

Additional work (Jan – Feb) - 2010 loss factors - import / export loss factor sensitivities - additional reports and technical discussions	\$50,000
Estimate of additional requested work as of March 8 <sup>th</sup> - evaluation of other technical solutions - sensitivities to plant output - sensitivities to transmission must run requirements	\$90,000
<b>Total</b>	<b>\$140,000</b>

The second concern is one of time. Our project schedule contains several milestone dates and deliverables that must be met to be able to calculate 2006 loss factors for January 1<sup>st</sup>. The three most important milestones currently impacting the project are;

- The selection and approval of technical methodology,
- To create the loss factor software for AESO use, and
- To finalize the loss factor rule, methodology and assumptions.

The AESO will delay issuing the purchase order for the creation of the loss factor software as long as possible while continuing to address stakeholder concerns. Prior to April 1<sup>st</sup>, the AESO will engage stakeholders in additional discussion and may propose changes to the technical methodology. Any proposed changes will be brought back to the stakeholder group. By April 1<sup>st</sup> the AESO will decide how to proceed and issue a purchase order for the loss factor software. If necessary, discussions will continue beyond April 1<sup>st</sup>. Any further changes must be accounted for as a project change order and implemented in a subsequent rule change and loss factor cycle.

The Loss Factor rule will be submitted on March 15<sup>th</sup>. Revisions and refinements may continue beyond March 15<sup>th</sup> as part of the rule change process. On May 15<sup>th</sup>, the rule will be submitted to AESO Executive for approval. Loss factor calculations for 2006 will use the May 15<sup>th</sup> rule as approved by the AESO Executive. If necessary, any further changes will be made as a rule change, followed by implementation in the next loss factor cycle.

In order to further the technical discussions, AESO will request our consultant to be available to answer questions as soon as possible.

Yours truly,

Jerry Mossing  
Director, Operations Planning

Alberta Electric System Operator