



balancingpool
FOR ALBERTA'S ELECTRICITY CONSUMERS

McFarlane Tower
600, 700 – 4th Ave. S.W.
Calgary, Alberta T2P 3J4

tel (403) 538-3432
fax (403) 538-3433
www.balancingpool.ca

December 18, 2001

Dear Stakeholder:

RE: Update on plans to move energy into the marketplace

We wanted to update you on our progress related to the Market Achievement Plan II (MAP II) that will place the power associated with the Balancing Pool-held Power Purchase Arrangements (PPAs) into the hands of market participants by mid-2002. MAP II will allow us to transfer the offer rights to the capacity from the Genesee, Sheerness and Clover Bar PPAs to third party purchasers.

Our timeline involves making a final recommendation on MAP II implementation to the Power Pool Council in February 2002. With the Council's endorsement, we would begin the marketing/information process in February, with the intention of holding a sale by the end of April. Contracts would be effective mid-year.

Specifically, the Balancing Pool is proceeding with:

- evaluation of two contract options—unit contracts and physical strips; and
- decisions related to matters such as holding restrictions, sale success criteria, credit requirements, and sale mechanism. The decision on sale mechanism will depend on the type of contract offered to the marketplace and could involve either an auction or a sealed bid process.

Below are some the considerations we are assessing regarding contract options.

Unit Specific—capacity, energy and ancillary services from a full unit of Clover Bar, Sheerness or Genesee, with offer and dispatch rights

- Pros: affords buyers full control of unit, reduced implementation risk
- Cons: may be limited interest in unit-sized positions; modifications required to base PPAs; potential for more physical risk.

Physical Strips—plant specific, small blocks (50 to 100 MW) across Sheerness and Genesee units or Clover Bar units, with offer rights

- Pros: no modifications to PPAs; potential increased number of buyers (and new market entrants) with offer rights; opportunity to sell Clover Bar capacity sooner, subject to holding restrictions; diversified physical risk.
- Cons: requires an aggregator; introduces rules and complexity from shared rights and unit control.

An aggregator's role would involve receiving and co-ordinating offers and submitting aggregated offers to the Power Pool, communicating with owners regarding plant availability and status, and providing settlement services.

We continue to consult extensively with stakeholders as we finalize the implementation plan. We also have "market soundings" underway. London Economics has updated its analysis on holding restrictions and we are now reviewing their recommendations.

In the interim, we are managing our capacity as a portfolio - electricity and ancillary services available to the Balancing Pool are being sold through existing market mechanisms including the spot market, the WattEx markets and the over-the-counter (OTC) markets. Essentially, we are participating in the marketplace as would any other marketing or trading company through our agent Candela Energy Corporation ("Candela").

Candela is an independent, Alberta-based electricity trading and asset management company. From December 1 to the end of its engagement with the Balancing Pool, Candela will dedicate its resources to us and will not otherwise be involved in the market.

If you are interested in entering into transactions related to our portfolio, please contact: Brian Bullen at 403-233-2256 (by e-mail at brian.bullen@candelaenergy.com) or Matthew Malcolm at (403) 233-2259 (by e-mail at matthew.malcolm@candelaenergy.com).

We look forward to advising you of the details of the MAP II implementation plan in February, and continue to welcome your input and suggestions as we move ahead.

Yours truly,
Balancing Pool

John Tapics, P. Eng.
Chief Executive Officer