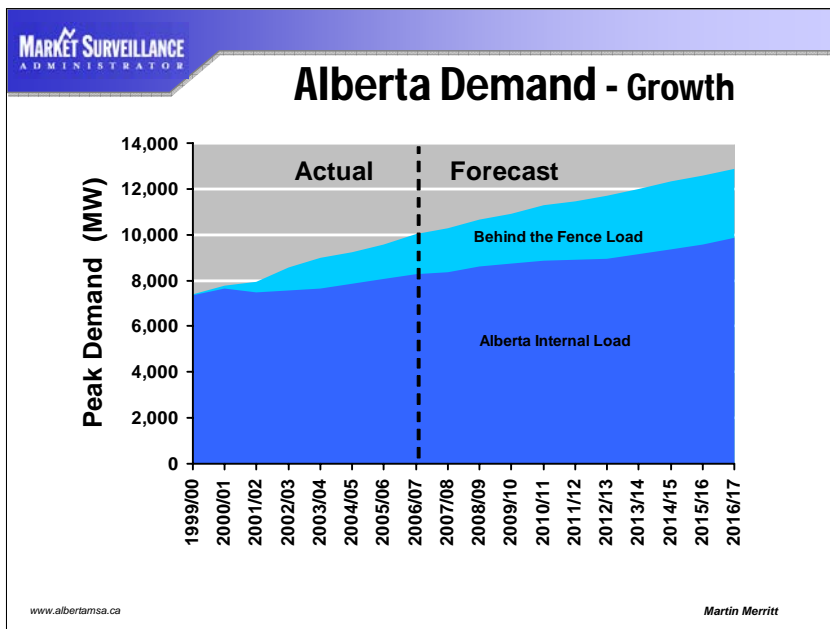


Alberta's deregulated power market is working. It's working for Albertans, its working for investors and its been doing so on a sustainable basis for 12 years. (longer than anywhere else is North America). It's working because we have a robust and rational price signal, it's working because the quality of that signal is the centrepiece of our "energy only" market design and it's working because government and my agency are willing to let it work... even if it does on occasion make the front pages.

Today I would like to share with you just a little of the evidence that allows me to make these assertions.

In my role as watchdog of a competitive market I come to work each day with a simple assumption in the superiority of the market model as a means for optimizing society's position, and a belief that it should be the job of government and regulators to create and officiate a game whose rules are structured such that knowledgeable, profit motivated, rule abiding participants contribute to the societal objective though the pursuit of their self interest.

In our market the only revenue stream available to fund investment, operation and ongoing maintenance is the one derived from the hourly pool price. We share this design feature with Ontario, Texas, California, Australia and others but it is different than some of the eastern US markets. Our hourly price signal is naturally and necessarily more volatile than one emanating from a hybrid capacity/energy market design. You can see the volatility of the hourly price signal behind me and even of the weekly moving average over the past 4 years. The price does occasionally get very close to zero and quite a bit more often get close to or hit our cap of \$1000/MWh.

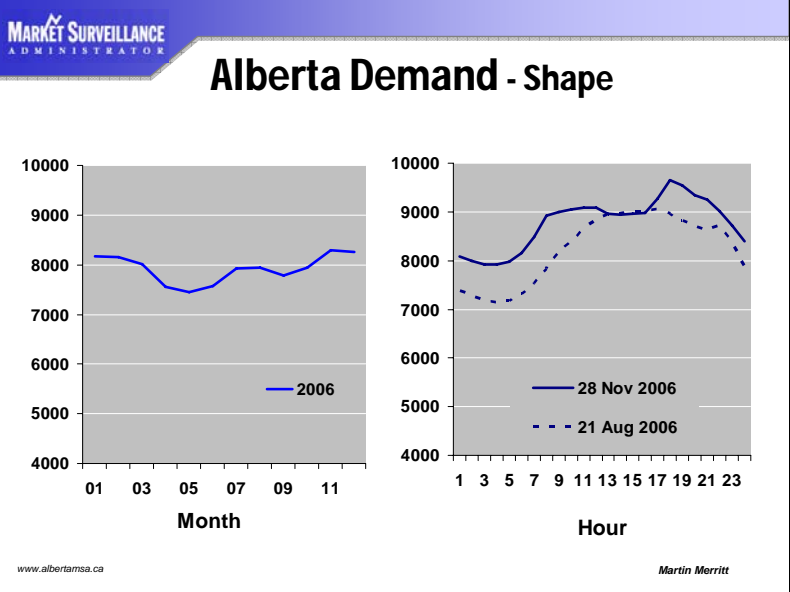


I would like to begin with an overview of our demand and supply circumstance and its history, then look at how price has morphed over time and in response to what.

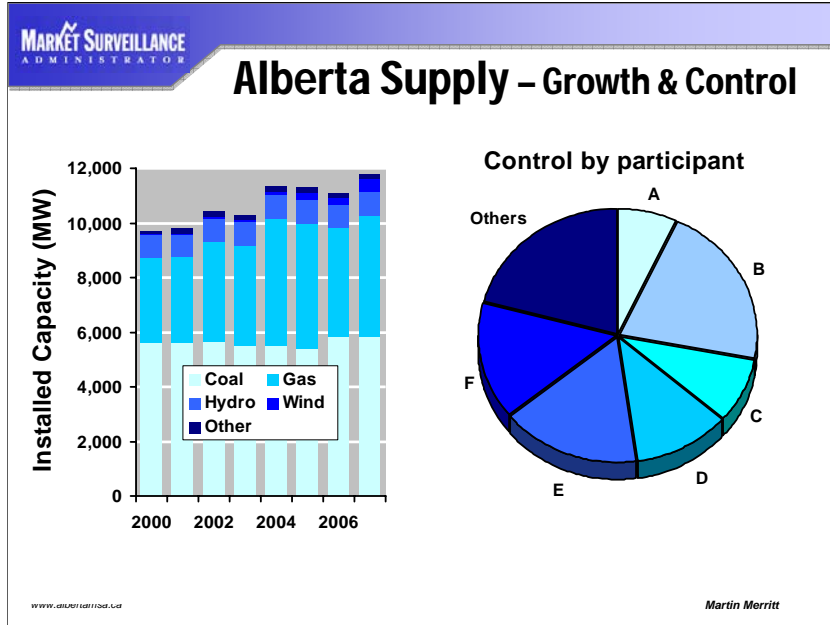
The forecast demand figures you see in this chart are from the AESO and the workup of what assumptions went in to them are available from the AESO's website. The actual's of course are a matter of record and they show that the province's internal load has grown by an average of over 4%/yr since 2000.

I think the top line demand on this slide is what is relevant but the lighter blue section is an interesting outcome of the fact that once inside the fence generation (which had been permitted for some time) was allowed to sell to the market at market prices (rather than to only their friendly neighborhood utility at marginal cost) the sector blossomed. The result has been several thousand MW of new, efficient, investor funded generation.

Oil sands exploitation presents large steam and electric loads so we will continue to see significant co-generation development in Alberta. How those projects are configured to meet (or not) outside the fence opportunities for electric sales will depend on investor views of forward prices...(how logical is that?) One way or another the load is growing and the arb across the industrial fence is one of many forces that keep the price signal honest. We'll talk about others shortly.



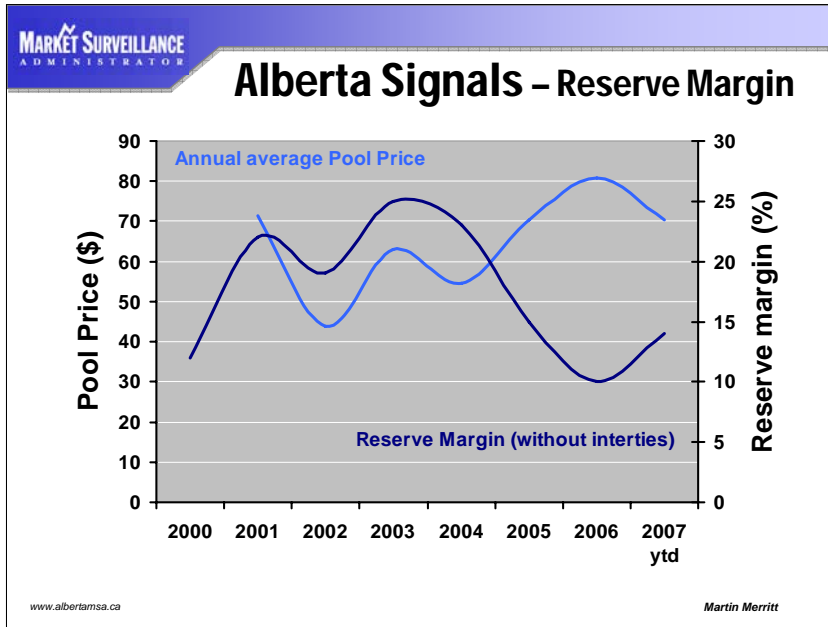
There may be a market somewhere with a higher load factor than Alberta's but I am not familiar with it. Our summer weather is moderate, keeping AC demand low, our winter space heating comes exclusively from natural gas and our industrial load is high relative to our population. On the left graph you see our season load profile, quite flat with a slight dip in the spring and on the right two daily load profiles, the lower one from a summer peak day and the higher one from a winter peak day. On any given day the load trough is only 20-25% below the load peak.



As you saw on the previous slide Alberta's load shape makes it a good market for investors in based loaded generation technology, and we do have a lot of that. As you see on the left about half of our installed generation is coal fired. The next largest slice is gas fired and a good portion of that for reasons that I mentioned earlier is co-generation which also likes to be base loaded. Next up the stack we have hydro, whose flexibility is very important to the operation of the system and finally at the top of the stack and the fastest growing segment of our installed base is wind generation. I am neither for or against wind generation...nor is it my place to be so. I think there are many good reasons why the wind industry is taking off in most jurisdictions but clearly wind is not dispatchable. This turns out to be relevant to an important trend in our market, one that the price signal is beginning to show and I'll share that with you in a few slides.

On to the right hand side of the chart...Back in 1995 just before Alberta began down the road to restructuring its electric industry we had 3 vertically integrated generators whose market shares were approximately 60/20/20. Following the "virtual divestiture" of the legacy generation assets through the PPA auction in the summer of 2000 and 7 years of building and re-trading on the secondary market the share of asset control looks like you see on the right. Six participants control the dispatch of about 80% of the generation assets with dozens more controlling the remaining 20%.

I believe, and the agency expressed this view in a paper we published on our website last fall that we are getting close to the upper limit in terms of single participant size...by limit I mean the point beyond which I would not be able to say, as I do today, that our price signal is a product of robust competition. Alberta has shown a great deal of willingness to let the price signal do its job without meddling or second guessing by government or regulators...I think this one of the underpinnings of our success, its what makes this space attractive to invest in...and we have to preserve that environment.

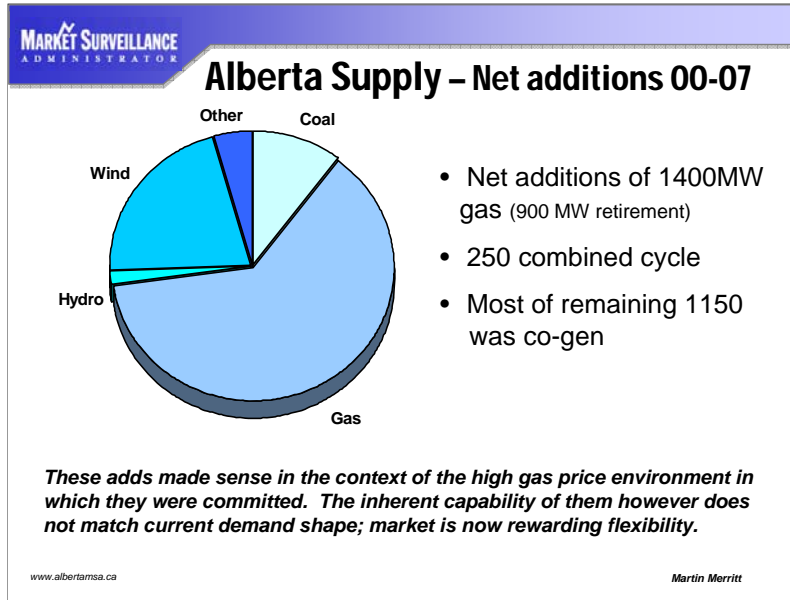


Let's now take a look at reserve margins; installed capacity minus peak load. You're looking at smoothed annual average price curve in light blue for the past 7 years plotted against the left axis and reserve margin (installed in province capacity – peak load) plotted against the right axis.

Here's a news flash – reserve margin and price are inversely related! (once out of the noise band) Obvious enough but always encouraging when reality converges with theory.

Sometimes when you deal with hourly prices as I showed on the opening slide its hard to see the forest for the trees but you have to know that a picture like this very comforting for policy makers and for a watch dog agency like mine.

I should just point out here that the graph is a bit misleading where it quits on the right hand side suggesting that reserve margins are getting fatter and price is coming down. In fact this graph is meant to show calendar year averages and since calendar 07 is not yet over and the tightest quarter is just coming up the YTD figures for price are probably understated and for reserve margin, overstated.



So, we have 2200MW of adds over 7 yrs in a roughly 9000MW market but this slide is not so much about the amount of capacity that we have built but rather about the fuel and technology mix and how that came to pass....

Wind of course while attractive for many reasons is not dispatchable. Wind stats:

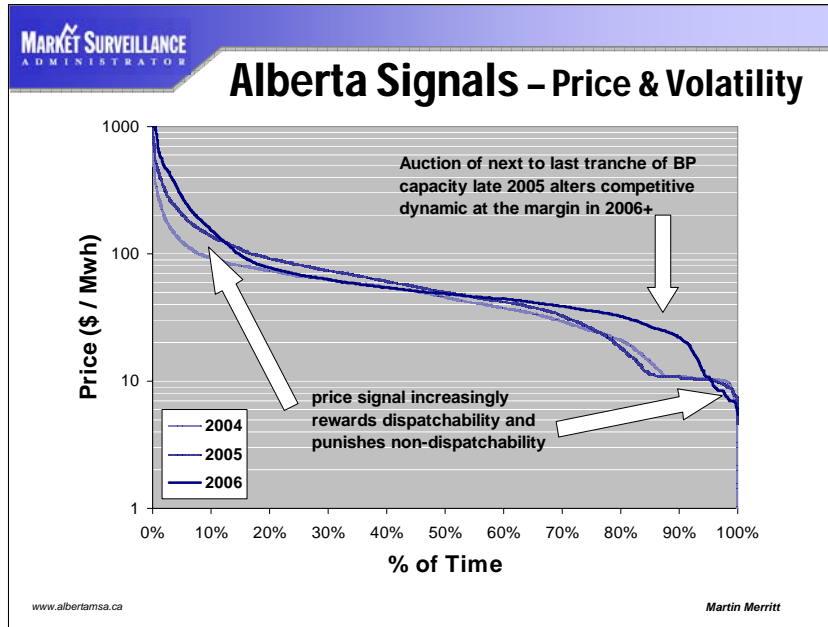
- 497MW now
- 545MW by year end
- ~900 by Dec 2008
- ~4000 in queue

Coal has a very strong economic imperative to be base loaded

And as for the gas well, net additions 1400 MW but the vast majority of it is co-generation, fabulous efficiency but not very dispatchable either.

These adds made sense in the context of the high power and gas price environment in which they were committed. The inherent capability of them however does not match current demand shape; market is now rewarding flexibility as I'll show you in the next slide.

One thing I do want to point out on this slide is the 900MW of retirements. I cannot overstate how important I think it is that a market design be capable of retiring its old junk. Keeping old junk around for a rainy day does very little for system reliability, is bad for mother earth (relative to the more modern equipment that would replace it) and its very existence mutes the investment signal. That Alberta's price signal has been able to retire old and incent new is I think, one of its strongest endorsements.



There are many ways to look at price, my opening slide looked like my ECG after a large Starbucks. This is one of my favorite and more useful ways, a cumulative probability distribution function a.k.a a price duration curve. I've layered the last 3 complete calendar years on top of one another to let you see how our price signal has been morphing in response to some of the things that I've been talking about:

- Growing load
- The addition of substantial base load generation
- The addition of substantial wind generation
- A characteristic and persistent load shape and finally
- The government's making good on its commitment to continue the sell down of capacity controlled by the Balancing Pool, an entity set up to house and divest of the assets that did not sell in the summer 2000 auction.

You can see on the left side that from 04 to 05 and 05 to 06 the market has been increasingly willing to pay more to those assets that run less than 20% of the time. There's no system planning or public policy decrees here, this is the invisible hand doing its work. Down near the toe of the curve you see the impact in 2006 of the sale of the Sheerness generating station by the Balancing Pool. This 800MW asset had previously been carved up into 100MW strips and sold to multiple parties...the cost structure and dispatch inflexibility of these strips set up a kind of prisoners dilemma among the strip holders making zero or "variable cost" the only rational offer strategies...the net result of which was to produce that funny flat spot you see in the 04 and 05 (and earlier) curves. In 2006 with the asset under the control of a single entity that artifact disappears.

Finally we see the mirror image of the left side of the curves willingness to pay for peaking assets...the far right side...the ingrown toe nail if you will. The market is taking a discount for inflexibility. I emphasize that this is not a story about the wisdom of any one particular type of generation...it's a story about a price that is faithfully reflecting both the quantity and quality of supply and demand and providing a signal that will guide the next wave of generation investment in the province. Price is doing what it need to do, not only signaling the need for generation but also guiding technology selection. When something works this well I think the risk of interference from policy makers or regulators is very low indeed.

Alberta Regulatory Environment

- **Policy track dates from 1995**
- **Directionally consistent and incremental**
 - Energy only market design
 - Unconstrained, postage stamp transmission
 - Steady progress on commitment to sell down Balancing Pool capacity
 - Half way through 5 yr leg-in to unregulated retail
- **Focus on price fidelity**
- **Willingness to let competition work**

The policy paper that ushered in electric deregulation to Alberta was published in the fall of 1994, legislation followed in the spring of 1995. Two premiers, two amended Acts, 3 or 4 elections and more than a full investment cycle later we're still on the program. A market as dynamic as electricity could never stand still and ours has evolved but its key features have remained constant:

- An hourly, "energy only" market
- A commitment to a complete sell down of the BP assets such that all generation in the province is controlled by profit motivated participants
 - Last 800MW leg pending, the government of course will decide but I would expect its auction sometime in calendar 2008
- Postage stamp, single zone transmission
- Move to competitive retail at a commercially (and I suspect politically) feasible pace
 - Need competitors
 - Need robust wholesale market, price signal and forward liquidity
 - Need consumer education

Today 100% of large industrial load consumes electricity at an unregulated price, or at least one regulated only by the market. Over 40% of commercial consumers and 15% of residential's who are eligible for a regulated rate have already switched to competitive contracts and the rates of switching are accelerating.

Having been a competitor for the vast majority of my career, I believe in competition; the toughest regulators I ever had were customers and competitors. Now that I'm a bureaucrat and given that we have ample evidence that competition is working I have very little inclination to second guess it.

Summary

- **The Alberta Power Market is working:**
 - 12 years of directional policy consistency
 - Zero publicly supported debt outside of T&D
 - Electricity prices reflect fundamentals
 - Investor & consumer behaviors reflect prices
 - Signal is presently rewarding flexible capacity
 - Circa 2017 will see a wave of base load retirements

Regulatory doctrine – look after price fidelity and much of what's left will look after itself.

If there is only one message that you take from my remarks today I would like it to be that in any competitive commodity market, and in particular an energy only electricity market, if you don't have a robust price signal you don't have much of a market. At the surveillance agency we spend a significant amount of our time focused on the quality of the contest and the fidelity of the signal that it produces. Our doctrine is very clear, if the price signal is robust, responsive and free from either rule or participant induced perturbations then competition will look after just about everything else.

Looking farther ahead we have a wave of legacy base load coal generators that will begin retirement in 2017 (+/- depending of course on the price signal). It is indeed encouraging to see investors in technologies with long lead times, nuke, clean coal and hydro already making rumblings.

We're now into our second wave of post deregulation investment; I think that the **confidence** that government, participants on both sides of the market and prospective investors have in our price signal is very good. We've seen the signal retire plants early, extend the life of others, influence consumption behavior, investment and technology decisions and through it all the lights have stayed on....which of course turns out to be a very important factor in continued public and therefore government support for this model, I don't expect that to change any time soon.

Thank you, I'd be very happy to take any questions.