

July 18, 2005

VIA E-MAIL

Alberta Energy and Utilities Board
10055 – 106 Street, 10th Floor
Edmonton, Alberta T5J 2Y2

Attention: Mike Hagan, P. Eng.
Application Officer, Utilities Branch

Dear Mr. Hagan:

Re: Direct Energy Regulated Services
DRT and RRT Rate Applications for 2005 and 2006
Application No. 1399611

Further to your letter of May 27, 2005 and the July 14, 2005 teleconference amongst parties with an interest in this Application, Direct Energy Regulated Services (DERS) wishes to indicate its proposals regarding the appropriate process for advancing DERS' application to completion on a timely basis. Later in this letter DERS will identify a few issues it believes should be addressed in this proceeding.

From DERS' perspective a key consideration in processing this Application is the need to have final rates in place before year-end 2005. This timeline for finalizing outstanding issues from 2004 and establishing rate certainty for 2005 is important for both DERS and its customers. During the July 14 teleconference DERS and interveners identified at least four process options: oral hearing, written hearing, negotiated settlement or combinations of these options. DERS believes all issues can be addressed and resolved in a negotiated settlement to enable final rates to be implemented before year end 2005. To this end DERS recommends that the Board establish a schedule that would grant DERS and interested parties until September 30, 2005 to conduct negotiations. This request is predicated on Board approval of a subsequent DERS' request to enter into a negotiated settlement process. Such request will be made immediately following the filing of any DERS' supplemental Information Responses as discussed during the July 14 meeting. On or before September 30 DERS and the negotiating parties would assess progress and prospects for resolution if a settlement hadn't been reached already and determine whether negotiations should continue or if a different option should be embarked on.

DERS noted at page 5 its Application that approximately \$20 million in annual costs for DRT and RRT services are subject to review and finalization. After adjusting for costs subject to deferral account treatment, the amount subject to final determination declines to about \$14 million per year. Although this amount is significant and the prudence of its components must be demonstrated by DERS, it manifests itself as about a \$1 per month charge on the bill of each customer. Over a year this amount of \$14 million is

less than 1% of the aggregate of all customer charges for DRT and RRT service. DERS believes that all issues that will emerge in this Application can be resolved in a negotiated settlement. Several parties indicated during the July 14 teleconference that their regulatory case load will be very heavy from late this summer to the end of 2005. DERS submits that the negotiated settlement process will place fewer demands on the resources of interested parties and will allow all parties to achieve a reasonable outcome. DERS is prepared to schedule negotiating sessions so that there will be minimal conflicts with regulatory hearings that have been scheduled already. DERS personnel will be available for evening and weekend negotiating sessions.

Your letter of May 27 also asked parties to table an issues list along with process suggestions. Although DERS doesn't believe the Board expects DERS to take a lead role in identifying issues, DERS wishes to identify two issues that it would like addressed in this Application. The first involves the appropriate treatment of customer deposits and the role of these deposits when determining DERS' necessary working capital. The second arises from DERS' obligation in EUB Decision 2003-106 at pages 150 and 151 to employ a consultative process with customer representatives to review DERS' Terms and Conditions. The Board expected this review would occur prior to or in conjunction with this Application. DERS is attempting to satisfy the consultative requirements by participating in a UCA process to establish a standard set of RRT Terms and Conditions. DERS is prepared to continue with the UCA process but may require an extension of time for completion of the Board's directive.

I may be reached at 403-290-6851 if you wish to discuss DERS' proposal or other aspects of this Application. If I am unavailable please contact Corinne Grudecki at 403-290-4635 or Gary Newcombe at 403-290-7745.

Yours truly,

<<original signed by Donald E. Gibbons>>

Donald E. Gibbons
Director, Regulatory Affairs, Western Region
Direct Energy Marketing Limited
*Direct Energy Regulated Services
is a business unit of Direct Energy Marketing Limited*

cc: Interested Parties