

September 27, 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 – Application No. 1399611
DRT and RRT Rate Applications for 2005 and 2006
Request for Board Approval to Commence a Negotiated Settlement
Process

Direct Energy Regulated Services (DERS) filed its DRT and RRT Applications with the Board on May 5, 2005. Since then DERS has responded to two rounds of information requests from the Board and interveners and has conducted teleconference meetings with the interested parties after each round of IR responses was filed. The last teleconference was convened on August 31 and on September 9 DERS filed a letter with the Board in response to matters raised in this teleconference and in the Consumers Group (CG) letter of July 18. During discussions with intervener representatives DERS ascertained that these parties are willing to enter into a negotiated settlement process (NSP) to determine the 2005 and 2006 DRT and RRT non-energy revenue requirements. None of these parties filed intervener evidence by September 7, 2005 as required by the Board schedule. DERS submits that the information provided in its Application and information responses and the attachments to this letter provide a sufficient basis for all parties to develop a sound understanding of the issues to be negotiated.

DERS believes that a NSP is the most cost effective way of resolving the DRT and RRT and non-energy revenue requirements and believes the view expressed in its July 15 letter to the Board is still relevant. In that letter DERS indicated that about \$14 million was subject to final determination after eliminating costs subject to deferral account treatment. Although \$14 million in costs incurred by DERS to serve DRT and RRT customers is significant and requires prudent management by DERS, it is equivalent to about \$1 per month charge on the bill of each customer. Viewed from another perspective, this amount is less than 1% of the aggregate of all customer charges for DRT and RRT services. Although Customer Care costs are subject to deferral account treatment, EUB Decision 1005-105 now requires these costs be addressed in this Application, which includes a forecast of these costs of about \$56 million annually.

Attached to DERS' September 9th letter was a comprehensive listing of the significant items contained in the DRT-RRT Application. DERS is proposing to use this listing as

an outline of the pertinent issues to be resolved in this NSP. It encompasses all the issues identified in the CG's letter of July 18th. This listing, which is provided as Attachment 1 to this letter, has been modified to recognize EUB Decision 2005-105 re: Benchmarking Study of Customer Care Services. In addition to this listing DERS is proposing to reference Schedules 5.1 and 5.2 in its DRT and RRT Application to identify the monetary items that should be addressed and settled during the negotiation process. Each line on these schedules would be a candidate for settlement. These schedules, as modified by the negotiations, would accompany the settlement agreement, which will be filed with the Board when Board approval for the settlement is being requested. Schedules 5.1 and 5.2 are included as Attachments 2(a) and (b). When appropriate, DERS can provide additional information to support the settlement of a significant revenue requirement item.

Notice of DERS' DRT and RRT Application was published on May 13 and interested parties responded by June 2. The interested parties have been identified by the Board in the Registered Intervener List of June 6, 2005. DERS believes all interested parties to the DRT/RRT Application were identified during the May-June period and is requesting Board permission that DERS not be required to use another public notification process to inform interested parties of the proposed negotiations. DERS believes the Board's IAR system can be used to provide the requisite notice to all interested parties at this time. Accordingly, if the Board approves this Application to commence negotiations it should be sufficient to publish notice through the IAR system on the Board's website and invite interested parties to file a request to participate. At the same time these parties should be encouraged to develop their proof of authority to negotiate and identify periods in October when they will be available to negotiate. If no meaningful negotiations can occur in October then the hearing option in early November may have to be exercised.

DERS is requesting EUB staff to attend the NSP as observers. DERS is not able to specify the starting date for the NSP until interested parties have been approved to participate. DERS proposes to initiate the NSP in October and will advise the Board of its status on October 14, which is the date the Board requested comments on requirements for an oral hearing. DERS will convene negotiations in Calgary and/or Edmonton to suit the majority of parties participating in the negotiations.

I look forward to the Board's direction respecting the next steps in this Application.

I may be reached at 403-290-6851 if you wish to discuss further.

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*

Encl.
cc: Interested Parties