

AESO 2004 Deferral Account Cut-Off Date and Post Cut-Off Adjustment Process Discussion Paper

March 24, 2005

Background

On March 16th, 2005, the Alberta Electric System Operator (AESO) held a stakeholder consultation meeting to discuss its 2004 deferral account cut-off date and the subsequent post cut-off adjustment process. The meeting was held in response to the AESO's filing of its 2003 Deferral Account Application (Application No. 138574) with the Alberta Energy and Utilities Board (EUB), in which the AESO committed in both Argument and Reply Argument to develop a process for its 2004 Deferral Account to respond to the concerns brought forward by interveners (in particular, Encana) respecting the deferral account cut-off date and the treatment of post-cut-off adjustments.

Discussion at the meeting proposed that selection of a cut-off date and post cut-off adjustment process should be assessed on the basis of the following principles:

- Accuracy — Will deferral account amounts be allocated to customers in accordance with EUB-approved principles?
- Consistency — Will treatment of a deferral account amount be the same whether the amount occurred before or after the cut-off date?
- Materiality — What amounts should be considered material and potentially require more detailed treatment than non-material amounts?

The following discussion assumes the deferral account will be reconciled on a production month (rather than an accounting month) basis in a retrospective process. The AESO notes it expects to file an application later this year for a prospective deferral account rider to be effective for 2006.

Cut-Off Date

A major factor when reconciling the deferral account is the cut-off date beyond which revenue and cost amounts will not be included in the reconciliation for that particular year, and will be included in the subsequent year's deferral reconciliation. To date, the AESO has used a cut-off date for a given year's deferral account of January 31 of the following year. Following a review of amounts related to 2003 and prior years' production months but which occurred in 2004, stakeholders suggested the following:

1. The cut-off date for revenue and cost amounts relating to a particular year's deferral account reconciliation would be August 31 of the following year.

An August 31 cut-off date would include all revenue and cost adjustments received to that date. An August 31 cut-off date would also include final transmission system losses for the deferral account year.

The AESO anticipates that it would require two and a half months after the cut-off date to prepare a deferral account reconciliation application. Therefore:

2. A particular year's deferral account reconciliation would be filed in mid-November of the following year.

The AESO would file the application earlier if possible.

The AESO is particularly interested in the views of any parties who desire an application earlier than mid-November.

Materiality

The issue of materiality was discussed with stakeholders at the March 16 meeting. There are two aspects to materiality:

- What would constitute a "material" adjustment?
- How would the handling of material adjustments occurring after the cut-off date differ from the handling of non-material adjustments?

Discussion at the meeting suggested the following materiality thresholds for post cut-off adjustments:

3. For AESO **costs**, an adjustment would be considered material if it exceeded 1% of the AESO's annual revenue requirement, which would equate to approximately \pm \$7.6 million for 2004.
4. For AESO **revenue**, an adjustment would be considered material if it exceeded \pm \$250,000 for a single customer or a single billing period.

The AESO has further considered the materiality thresholds, and proposes the following alternatives for the thresholds discussed on March 16. Material thresholds for post cut-off adjustments would be:

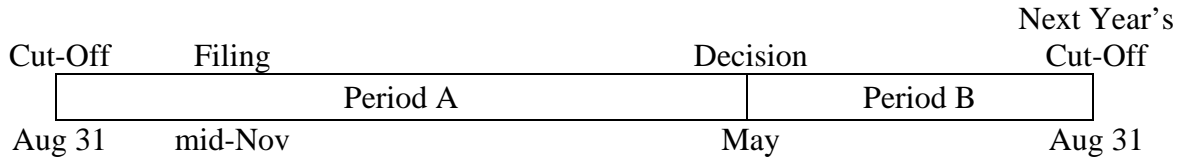
- 3-A. For AESO **costs**, a cumulative post cut-off adjustment for a single cost component (wires, ancillary services, losses, or "own costs") would be considered material if the cumulative amount exceeded 1% of the AESO's annual revenue requirement, which would equate to approximately \pm \$7.6 million for 2004.
- 4-A. For AESO **revenue**, a cumulative post cut-off adjustment for a single revenue component (wires, ancillary services, losses, or "own costs") would be considered material if the cumulative amount exceeded 1% of the AESO's annual revenue requirement, which would equate to approximately \pm \$7.6 million for 2004.

The AESO proposes the additional detail in 3-A to clarify that amounts are cumulative and to recognize that separate cost components are reconciled separately in the deferral account and therefore should not be considered to offset each other. For example, a +\$8.0 million adjustment to wires costs should not be netted against a -\$7.0 million adjustment to ancillary services costs.

The AESO proposes the change in 4-A because, while an individual customer would be rebilled to reflect the revenue adjustment, the AESO considers the impact to be immaterial for other individual customers when as little as \$250,000 is allocated over all AESO customers. The AESO has concluded that the materiality threshold for revenue should therefore be similar to the materiality threshold for costs.

Post Cut-Off Adjustments

Discussion at the meeting identified two post cut-off periods during which material adjustments could be handled differently.

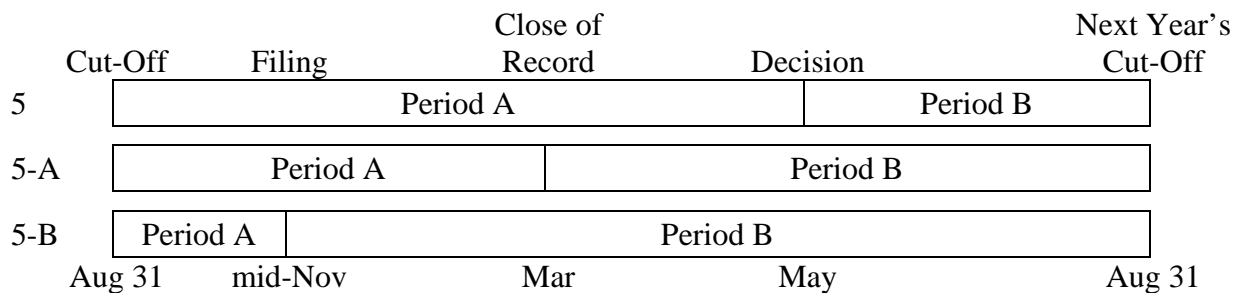


Material Period A Adjustments

Material adjustments during Period A were suggested to be handled as follows:

- If a **material** adjustment occurred during **Period A** (after the cut-off date and prior to the EUB issuing its decision), the AESO would refile its deferral account reconciliation based on a new cut-off date which would include the material adjustment.

The AESO has further considered the handling of post cut-off adjustments, and is concerned with refileing after the close of the written record in a proceeding (typically the filing of reply argument) anytime up to the EUB issuing its decision. In particular, such a process seems inefficient if the material adjustment arises just before the EUB issues its decision. The AESO therefore proposed the following alternatives to the periods identified above:



These alternatives to item 5 can be described as follows:

- 5-A. If a material adjustment occurred during Period A (after the cut-off date and *prior to the close of the written record*), the AESO would refile its deferral account reconciliation based on a new cut-off date which included the material adjustment.
- 5-B. If a material adjustment occurred during Period A (after the cut-off date and *prior to the AESO's filing of its deferral account reconciliation*), the AESO would delay filing its

deferral account reconciliation until it could accommodate a new cut-off date which included the material adjustment.

The AESO believes either alternatives 5-A or 5-B would allow for an efficient regulatory review and decision process, and would still capture material adjustments that occur for some months after the initial cut-off date. (Please note that the dates provided in the above timeline are illustrative only.)

The AESO notes that discussion on March 16 contemplated a refiling of the 2003 deferral account reconciliation, consistent with item 3 above. In an initial discussion, the EUB was not fully supportive of such a refiling and instead suggested a separate one-time filing of any material adjustments relating to 2003 might be more appropriate. However, the EUB was interested in hearing stakeholder comments on the proposed process.

The AESO also notes that alternatives 5-A and 5-B would not require a refiling of the 2003 deferral account reconciliation, and addresses this matter in the following section.

Material Period B Adjustments

Discussion on March 16 contemplated the following approach for material adjustments during Period B:

6. If a **material** adjustment occurred during **Period B** (after the EUB issued its decision and prior to the next year's cut-off date), the AESO would include the adjustment in a "13th month" in its next year's deferral account reconciliation application.

In its 2003 refiling, the AESO accumulated any adjustments which related to pre-2003 production months in a "13th month" and allocated those adjustment to customers based on the total of 2003 annual revenue (including pre-2003 revenue adjustments) by component by customer. Item 6 above proposes that the process for material adjustments which occur in Period B (after a EUB decision) would be handled in a similar manner.

Although the AESO is not opposed to such treatment if stakeholders support it, the AESO suggests as an alternative a second level of materiality for Period B adjustments. The AESO suggests it may be inappropriate to propose that any adjustment, no matter how large, after a particular date established by any method (even after a EUB decision is issued) should be treated the same as smaller non-material adjustments. The AESO therefore proposes a second tier of materiality for Period B adjustments as follows:

- 6-A. For AESO **costs**, a Period B adjustment for a single cost component (wires, ancillary services, losses, or "own costs") would be considered material if the amount exceeded 2.5% of the AESO's annual revenue requirement (approximately \pm \$19 million for 2004) and would trigger a separate application to reconcile the adjustment.
- 6-B. For AESO **revenue**, a Period B adjustment for a single revenue component (wires, ancillary services, losses, or "own costs") would be considered material if the amount

exceeded 2.5% of the AESO's annual revenue requirement (approximately \pm \$19 million for 2004) and would trigger a separate application to reconcile the adjustment.

An adjustment which occurs in Period B and which exceeds the Period B materiality thresholds in items 6-A or 6-B would trigger a separate application to reconcile those adjustments. Such application would more closely correspond to how the amount would have been allocated had it been included in the respective year's deferral account, and is appropriate for amounts larger than the suggested Period B materiality thresholds.

The AESO notes that alternatives 6-A and 6-B would trigger a separate application to reconcile an adjustment relating to 2003 and prior years.

Non-Material Adjustments

Discussion at the March 16 meeting suggested the following handling of non-material post cut-off adjustments:

7. If a refiling is required by a material Period A adjustment, non-material adjustments which occur in Period A would be included in that refiling.
8. If no refiling is required by a material Period A adjustment, non-material adjustments which occur in Period A would be accumulated in a "13th month".
9. Non-material Period B adjustments would be accumulated in a "13th month".
10. Non-material adjustments accumulated in a "13th month" would be allocated to customers based on the subsequent year's annual revenue (except for losses which would be allocated on volumes times pool price), similar to the process used for pre-2003 adjustments in the 2003 deferral account reconciliation refiling.

The AESO notes the following additional "13th month" accumulation which was not raised at the March 16 meeting but which is consistent with the AESO's 2003 deferral account reconciliation application:

11. Portions of any adjustments (material or non-material) that relate to a year prior to the deferral account would also be allocated on a "13th month" basis for the deferral account year.

For example, if a material adjustment of \$10 million occurred in April 2005 with \$6 million related to 2004 production months and \$4 million related to 2003 production months, the \$6 million would be allocated by production month as part of the 2004 deferral account while the \$4 million would be allocated as a "13th month" amount based on 2004 annual revenue.

Comments

The AESO invites interested parties to comment on the above items using the attached comment template, by April 1, 2005.