


## 2004 Deferral Account Cut-Off and Post Cut-Off Adjustment Process

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Stakeholder Meeting  
June 7, 2005 — Calgary



## 2004 Deferral Account Consultation

- Cut-off issues raised in 2003 DA reconciliation process in late 2004
- Stakeholder meeting, discussion paper, stakeholder comments, and AESO response in March-April 2005
  - Some conclusions reached
  - Some issues remain unresolved
- Further consultation in June-July 2005 to determine final AESO proposal
  - Stakeholder meeting, discussion paper, stakeholder comments (two cycles), AESO proposal


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### Conclusions Reached So Far

- Data cut-off date will be August 31, 2005 for 2004 Deferral Account reconciliation
- Filing of 2004 Deferral Account Reconciliation Application will be mid-November 2005
- Material adjustments prior to close of written record would re-set cut-off date and initiate recalculation
  - Not complete agreement from all parties
- \$27.5 million adjustment related to 2001-2003 will be addressed through separate application
  - Could it be rolled into 2004 application?


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### Process Period Definitions for 2004

2005 Period A	31 Aug 2005	2004 DA Cut-Off
	Mid Nov 2005	2004 DA Application
2006 Period B	May 2005	2004 DA Decision
		2004 DA Close of Record
2007 Period C	31 Aug 2006	2005 DA Cut-Off
	Mid Nov 2006	2005 DA Application
		2005 DA Close of Record

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### Application and Recalculation Steps

1. Extraction of revenue data from billing/accounting system
2. Distribution of revenue data to customers by production month
3. Calculation of monthly allocators by customer by rate component by production month, based on revenue data

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4. Calculation of total industry cost by month
5. Calculation of total industry revenue by month
6. Allocation of monthly deferral account balances to customers by rate component


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### Current AESO Proposals

Period	Material Amounts	Non-Material Amounts
Period A	Recalculation of all amounts and resetting of cut-off and filing dates	Included in recalculation if any; else included in "13th month" in next year's DA application
Period B	Addressed in separate application (based on higher materiality threshold)	Included in "13th month" in next year's DA application
Period C	Included in "13th month" in next year's DA application	Included in "13th month" in next year's DA application


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### 2003 Schedule If Proposed Process Had Been in Place

Activity	Data Cut-Off	Filing of Application
Preparation of 2003 Deferral Account Reconciliation Application	Aug 31 2004	Mid-Nov 2004
October 2004 material adjustment of (\$7.8) million triggers recalculation	Oct 31 2004	Mid-Jan 2005
December 2004 material adjustment of (\$27.5) million triggers recalculation	Dec 31 2004	Mid-Mar 2005

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### Materiality Threshold

- 2004 Revenue Requirement from Interim Rates
 

Interconnection Charge	\$429.9 million
Operating Reserve	121.1 million
Other System Support	2.4 million
Transmission Losses	<u>146.4 million</u>
Total	\$699.8 million
- Materiality proposals
  - If cumulative adjustments to any single component or sum of components of either cost or revenue is  $\geq \pm 1\%$  of total revenue requirement ( $\approx \$7.0$  million)
  - If adjustment to revenue is  $\geq \pm \$250,000$  per customer
  - Should different threshold be used in Period B?


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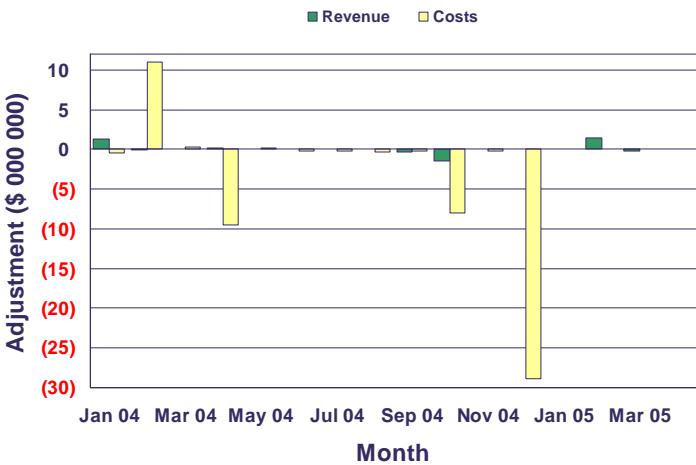
### Materiality Threshold Considerations

- Impact on individual customer is not known until end of process
  - Maximum share of deferral account adjustments to DTS customers in 2003 refiling:  $\pm 1.2\%$  of total balance
  - Maximum share of deferral account adjustments to STS customers in 2003 refiling:  $\pm 1.6\%$  of total balance
- Individual customers would continue to receive adjustments on base DTS and STS bills — question is whether such adjustments would lead to deferral account recalculation

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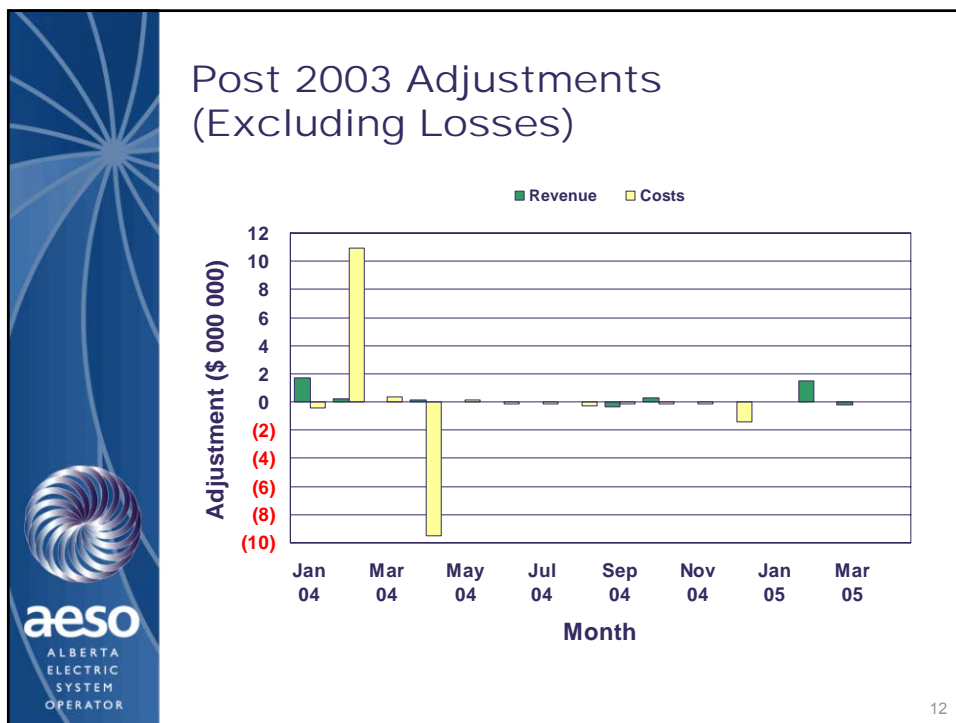
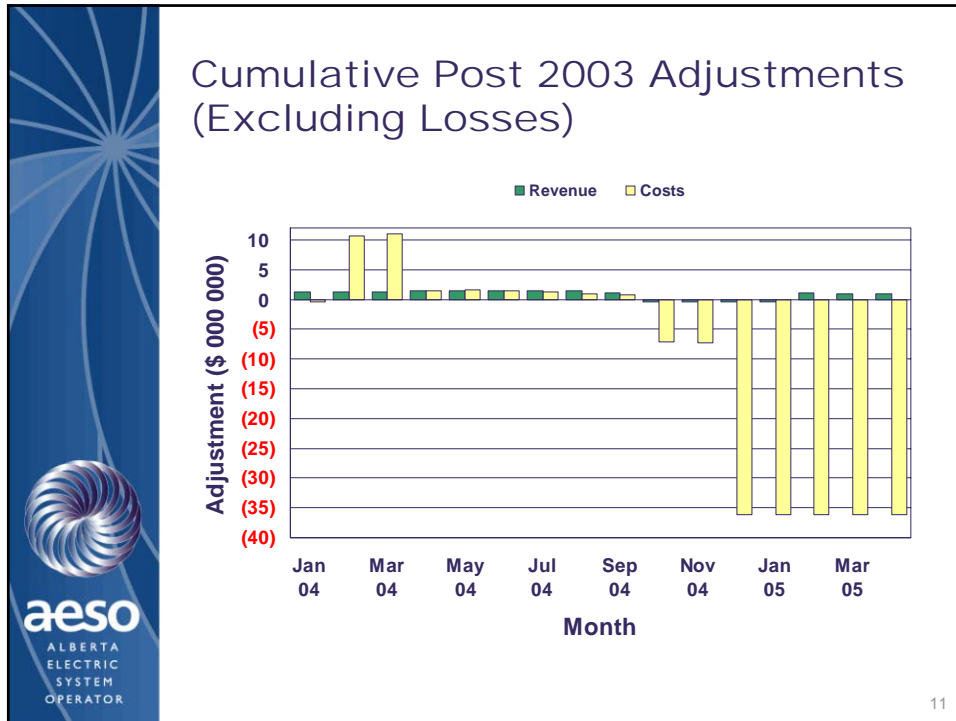


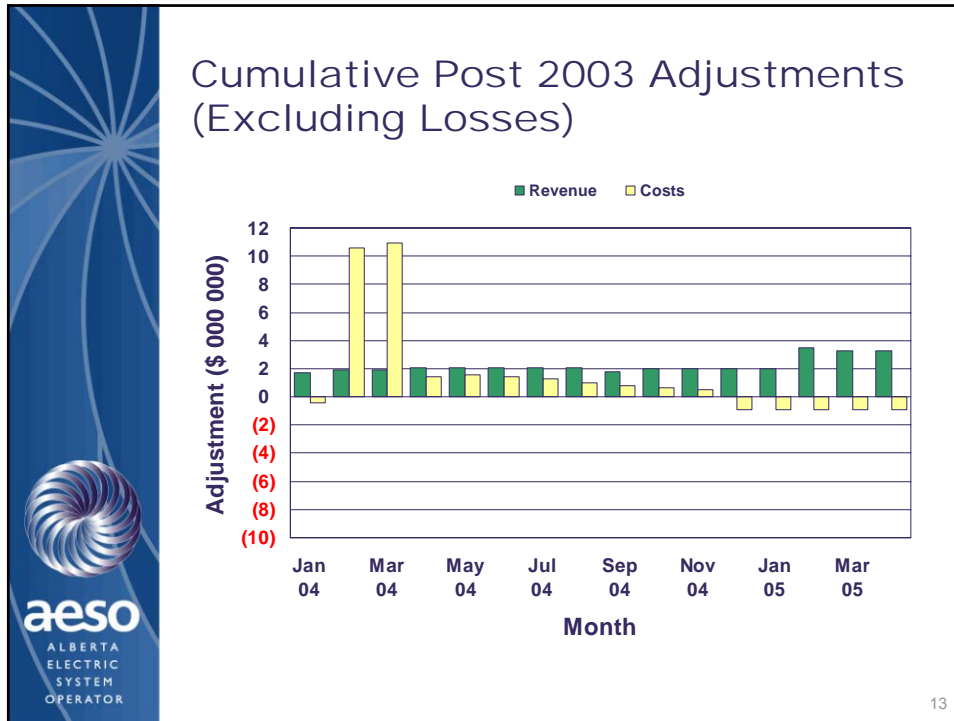
### Post 2003 Adjustments (Including Losses)




Month	Revenue (\$ 000 000)	Costs (\$ 000 000)
Jan 04	1.5	-0.5
Mar 04	0	10.5
May 04	0	-10.5
Jul 04	0	0
Sep 04	-1.5	-8.5
Nov 04	0	-28.5
Jan 05	1.5	0
Mar 05	0	0

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- ### Recalculation Considerations for Material Adjustments
- As recalculation requires significant effort, decision to recalculate should balance work required and additional precision
    - Could adjustments be reallocated using previously calculated allocators, starting at Step 4 of application and recalculation process?
    - Using previously calculated allocators would effectively have EUB decision deem allocators to be final
  - Recalculation before application is filed requires less work than recalculation after application is filed
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### Use of Previously Calculated Allocators

	Inter-connection Revenue	Customer % of Total Inter-connection Revenue	Inter-connection Deferral Amount Charge (Refund)	Interconnection Monthly Deferral Customer Allocation Charge (Refund)
Customer A	\$10,000	57%		\$(1,714) (57% × \$3,000)
Customer B	0	0%		0 (0% × \$3,000)
Customer C	7,500	43%		(1,286) (43% × \$3,000)
<b>Total</b>	<b>\$17,500</b>	<b>100%</b>	<b>\$(3,000)</b>	<b>\$(3,000)</b>
<i>Reallocation Using Previously Calculated Allocators</i>				
Customer A	\$10,000	57%		\$(2,571) (57% × \$4,500)
Customer B	0	0%		0 (0% × \$4,500)
Customer C	7,500	43%		(1,929) (43% × \$4,500)
<b>Total</b>	<b>\$17,500</b>	<b>100%</b>	<b>\$(4,500)</b>	<b>\$(4,500)</b>

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- ### “13th Month” Considerations
- In 2003, “13th month” deferral account accumulations relating to 2001-2002 were allocated based on 2003 annual revenue
    - 2003 annual revenue included total Jan-Dec 2003 revenue plus prior year revenue adjustments included in 2003 deferral account
  - Should this apply for prior year amounts of any size or only to “non-material” amounts?
    - Amounts for one year prior (2003 for 2004 deferral account) could be allocated on 2003 monthly allocators
    - Amounts for two or more years prior (2001-2002) could be allocated on 2003 annual allocators
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### Conclusions to be Made

- What is materiality threshold?
  - For costs and for revenues
  - Is there any distinctions between Period A, Period B, and Period C thresholds?
- Is the close of record an appropriate end-point for Period A?


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### Conclusions to be Made (cont'd)

Period	Material Amounts	Non-Material Amounts
Period A	Recalculation of all amounts and resetting of cut-off and filing dates	Included in recalculation if any; else included in "13th month" in next year's DA application
Period B	?	Included in "13th month" in next year's DA application
Period C	?	Included in "13th month" in next year's DA application

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## Next Steps

- Jun 16 AESO to distribute discussion paper summarizing meeting, adding AESO views, and including comment form
- Jun 29 Stakeholders to provide comments
  - All comments will be considered public and posted on AESO web site
- Jul 6 AESO to distribute comment matrix and responses
- Jul 13 Stakeholders to provide additional comments (if any)
- Jul 22 AESO to distribute final proposal

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## Discussion and Questions

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- Information can be accessed on [www.aeso.ca](http://www.aeso.ca) by following path Quick Links ► Current Regulatory Activities ► AESO 2004 Deferral Account Cut-Off Date and Related Issues Consultation

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