



August 23, 2005

Sent via e-mail

Interested Parties

AESO 2003 Deferral Account Reconciliation

Dear Stakeholder:

Re: **AESO 2006 Prospective Deferral Account Rider Methodology**

On August 15, 2005, the Alberta Electric System Operator (AESO) posted comments from stakeholders on the AESO's July 14 discussion paper on the 2006 prospective deferral account rider methodology. The AESO has now prepared the attached comment matrix which includes the comments received from stakeholders and AESO responses to those comments.

The comments and responses will be discussed at the stakeholder meeting scheduled for tomorrow, August 24, 2005, from 9:00 am to 12:00 noon in the AESO Boardroom, 25th Floor, 330 – 5th Avenue SW, Calgary. The presentation to be used in that meeting is also attached.

Participants will then have the opportunity to provide additional comments on tomorrow's discussion to the AESO, by Friday, September 7, 2005. The AESO will then prepare and file an application for a 2006 prospective deferral account rider methodology by September 30, 2005.

The AESO appreciates stakeholders' participation in this consultation. Consultation documents are available on the AESO's website at www.aeso.ca by following Quick Links ► Current Regulatory Activities ► AESO 2006 Prospective Deferral Account Rider Methodology.

If you have any comments or questions on this process or on the attached information, please contact me at (403) 539-2465 or john.martin@aeso.ca, or Randeep Nota at (403) 539-2468 or randeep.nota@aeso.ca.

Yours truly,

[original signed by]

John Martin
Manager, Regulatory

cc: Jamie Cameron, EUB
Rob Senko, Randeep Nota, Carol Moline, Roxanne Moeskops, AESO

Attachments

**AESO 2006 Prospective Deferral Account Rider Methodology
Stakeholder Comments and AESO Responses — August 23, 2005**

AESO Proposal	Stakeholder Comment	AESO Response
Support for Prospective Rider Methodology		
<p>1. A prospective deferral account rider methodology for the DTS rate should be implemented in 2006.</p>	<p>ADC – Support. The ADC is generally supportive of implementing a prospective deferral account methodology for Rate DTS for 2006. With a move to a prospective rider, it is anticipated that the AESO’s forecasting would continue to improve to ensure that deferral account balances are minimized.</p> <p>AltaGas – Support.</p> <p>ATCO Power – Support.</p> <p>CMH – Support. Advantages of a prospective rider are greater than those of the retrospective rider. CMH agrees with the assessment in the Principles section (pg 2) of the Discussion Paper.</p> <p>EnCana – As a participant to the 2002 GTA Negotiated Settlement which gave rise to the Rider C concept and its intended implementation as a prospective mechanism, EnCana is clear that the central reason for such a mechanism was to address the concerns of supply customers and their inability to manage after-the-fact charges. As the primary grounds for a prospective mechanism no longer exists, EnCana believes that there is insufficient impetus for a prospective mechanism. Therefore, EnCana does not support a prospective deferral account method for DTS customers starting in 2006. EnCana recommends that the AESO continue with the retrospective deferral account method that is being developed for 2004 and 2005. If a prospective method is to be used, EnCana believes that certain minimum provisions are required as discussed herein.</p> <p>In either case, EnCana believes that the AESO needs to simplify the deferral account process in order to make it more tractable for customers and the Board as well as to reduce the volatility in rate Riders. If there is validity to the AESO’s suggestion that it can handle deferral variances in the order of \$56 million (page 11), EnCana proposes that the AESO abandon the Rider C approach and return to a Rider B only method of managing deferral balances. In other words, the AESO would accumulate deferral balances until year-end, using Rider B for any cash</p>	<p>Stakeholders generally support a prospective deferral account rider methodology for the DTS rate. The AESO notes that ADC represents DTS customers and FortisAlberta is a DTS customer, and both support a prospective methodology. As well, ATCO Electric and FIRM Customers (who are both DTS customers) participated in the June 7 stakeholder meeting and did not oppose a prospective methodology.</p> <p>The AESO believes a prospective deferral account rider methodology can be simpler and more predictable, and provide more timely settlement, than the current retrospective methodology. It may therefore allow a more efficient regulatory process to reduce both stakeholder and EUB involvement.</p> <p>The AESO would appreciate hearing from other DTS customers on whether they support or oppose a prospective deferral account rider methodology.</p> <p>The AESO did not mean to imply on page 11 of the July 14 discussion paper than it would carry a deferral account balance of \$56 million over the year. Rather, the statement indicated that balances of that</p>

AESO Proposal	Stakeholder Comment	AESO Response
	<p>calls if required; after the year-end the AESO would disburse the deferral amounts using the retrospective production month method. Significantly, this would eliminate the required quarterly forecasting of rate riders and the volatility in riders. Additionally, it would require the AESO to publish production month records of costs and revenues that can be monitored by customers and the Board.</p> <p>Importantly, EnCana believes that the AESO has not demonstrated how its proposed prospective method will accommodate the need of customers and the Board to reconcile actual costs and revenues with the forecasted amounts that underpin any Phase 1 application. The ability to track costs and to test them for prudence is a minimum condition for any acceptable deferral method.</p> <p>EPCOR – Support.</p> <p>Fortis – Support.</p> <p>TCE – Support.</p>	<p>amount have been processed within the year through the current Rider C, and therefore could be considered “normal”. As well, when Rider B was used by the AESO deferral account balances were not accumulated until year-end. Rather, Rider B was implemented anytime the deferral account balance exceeded \$7.0 million, and was therefore considered unpredictable by some parties.</p> <p>The AESO concurs that a simplified and transparent deferral account process is desirable, and will work with parties to design a process that satisfies the criteria which participants establish as important.</p>
Transition From Retrospective to Prospective Methodology		
<p>2. Adjustments for 2005 and prior years would be treated as retrospective methodology adjustments and would not be rolled into prospective methodology.</p>	<p>ADC – Support.</p> <p>AltaGas – Support.</p> <p>ATCO Power – Indifferent.</p> <p>CMH – Oppose. CMH supports a ‘clear cut’ date for transition from Retrospective to Prospective, i.e. Dec 31, 2005. The retrospective finalization of 2005 should be done as per a prescribed time table. Once done, further adjustments for 2005 or prior years, if they arise, should be rolled into being handled using the prospective methodology.</p> <p>EnCana – Support.</p> <p>EPCOR – Support.</p> <p>Fortis – Indifferent.</p> <p>TCE – Support.</p>	<p>Stakeholders generally support continuing retrospective treatment of adjustments relating to years in which deferral accounts were reconciled retrospectively.</p> <p>The AESO expects that large (“material”) adjustments may arise relating to a year which was reconciled retrospectively. If such material adjustments occur, it seems appropriate to reconcile them retrospectively even if a prospective method has since been adopted. This is consistent with the principle that the timing of an adjustment should not affect the financial outcome of reconciling that adjustment.</p>

AESO Proposal	Stakeholder Comment	AESO Response
Prospective Rider Duration and Recovery Period		
<p>3. The prospective rider will be calculated each calendar quarter, and will be designed to restore the year-end deferral account balance to zero over the remaining months of the calendar year.</p>	<p>ADC – While there are many objectives to balance in the selection of a rider methodology, a key characteristic of that rider should be predictability. The variability that exists under the current rider recovery makes it difficult for customers to budget for electricity costs, especially when the quantum and direction (charge/credit) of the rider is released only a few days before the new rider is effective.</p> <p>ADC would like to see a rider that provides a high level of stability and predictability. According to the AESO’s assessment displayed in Figure 1, both the current methodology and the proposed methodology have the worst rating for stability and predictability. Although, ranked lower in the AESO’s assessment of options, there is merit in examining other alternatives such as the annual rider (or variations of) that would provide more stability and predictability.</p> <p>AltaGas – Support. This method provides the greatest stability for DTS customers.</p> <p>ATCO Power – Support.</p> <p>CMH – Support. It is important to CMH that the recovery period is kept to be within the remainder of the calendar year. Monthly calculations as required in Option 3-B are not considered as necessary or worth the cost of the resulting additional administrative workload.</p> <p>EnCana – Oppose. A prospective method must be simple, understandable, and practical. Proposal 3 does not adhere to any of these principles. It is not simple, because the AESO must engage in repeated forecasted and adjusting of a quarterly rider. It is not understandable because customers and the Board cannot follow the AESO rate setting process either in real-time or after the fact; in part because all calculations are “in-house” and in part because the AESO proposes to use an “accounting month” method that will not reconcile revenues and costs nor permit a comparison to the production month numbers used by the AESO in its original rate applications. It is not practical because it creates a systemic bias in the pattern of quarterly riders; the Q1 rider will always be zero and the Q4 rider will always be loaded in an attempt to “catch-up” to a calendar year closure. Moreover, the residual amounts will be collected in a “13 month” process that must</p>	<p>The AESO notes that some parties have questioned the AESO assessment of rider options in Figure 1, and intends to further discuss the relative strengths and weaknesses of rider options with stakeholders at the next stakeholder consultation meeting on the prospective rider methodology.</p> <p>Regarding stability, the AESO assessed rider options with respect to the expected frequency, magnitude, and direction of rider changes during a year.</p> <p>The AESO believes that any prospective methodology must inherently be based on an accounting month treatment. It may be possible to provide a reconciliation to annual revenue requirement as part of the anticipated annual information filing.</p> <p>The AESO believes rider calculations will be similar in transparency to the current calculations.</p> <p>The AESO suggests that year-end “residual” balances would be recovered over the following calendar year.</p>

AESO Proposal	Stakeholder Comment	AESO Response
	<p>be allocated in an undefined future period using an undefined method.</p> <p>EPCOR – Support.</p> <p>Fortis – Indifferent.</p> <p>TCE – Support. Prefer 3-C as per TCE letter, but if not possible, TCE prefers this option.</p> <p>From TCE’s letter:</p> <p>3. On page 5, the AESO describes the quarterly rider with a 12-month recovery period as an inferior approach. TransCanada does not agree with several of the ratings for this method (rider option (d)) as summarized in Figure 1 (page 6). It appears that the AESO does not support this method. For example, it was rated poorly under the fairness and equity principle, but is probably the fairest method for generators whose production fluctuates a lot during a given year. These ratings had no customer input and could benefit from discussion. If the AESO is correct that this method does not meet subsection 14(3) of the EU Act, then TransCanada prefers rider option (b). Otherwise, TransCanada would prefer rider option (d).</p>	
<p>3-A. The prospective rider will be calculated each calendar quarter, and will be designed to restore the quarter-end deferral account balance to zero over the following calendar quarter.</p>	<p>ADC - <i>no comment provided</i></p> <p>AltaGas – Oppose.</p> <p>ATCO Power – Oppose.</p> <p>CMH – Oppose.</p> <p>EnCana – Oppose.</p> <p>EPCOR – <i>no comment provided</i></p> <p>Fortis – Indifferent.</p> <p>TCE – Oppose.</p>	<p>See comments under Option 3 above.</p>
<p>3-B. The prospective rider will be calculated each calendar month, and will be</p>	<p>ADC – The following are questions to try and clarify rather than comments. In the event that the prospective rider does not fully recover or refund the balance of the deferral account at the end of the year,</p>	<p>The AESO suggests that year-end “residual” balances would be recovered over the following</p>

AESO Proposal	Stakeholder Comment	AESO Response
<p>designed to restore the year-end deferral account balance to zero over the remaining months of the calendar year.</p>	<p>bringing the account balance to zero, what will happen with the ending balance? Would this end balance be incorporated into the following quarter of the next year? Could this alternative also be thought to contravene subsection 14(3) of the EUA since at the end of the year any balances remaining (due to forecast error) would appear as a profit or loss even if those balances are recovered in a future year?</p> <p>AltaGas – Indifferent.</p> <p>ATCO Power – Indifferent.</p> <p>CMH – Oppose. CMH sees no advantage of moving to monthly calculations.</p> <p>EnCana – Oppose.</p> <p>EPCOR – <i>no comment provided</i></p> <p>Fortis – Oppose.</p> <p>TCE – Oppose.</p>	<p>calendar year.</p> <p>The AESO believes that any prospective methodology will result in some residual balance at year end — that is, it is impossible to perfectly match revenue and costs on a forecast annual basis. However, by developing a process which targets an annual matching of revenue and costs, the AESO believes it will meet the intent of subsection 14(3) of the EUA.</p> <p>The AESO agrees with EnCana’s point under Option 3-D that carry-forward of residual balances does not contravene subsection 14(3).</p>
<p>3-C. The prospective rider will be calculated each calendar quarter, and will be designed to restore the deferral account balance to zero over the next twelve calendar months.</p>	<p>ADC – <i>no comment provided</i></p> <p>AltaGas – Oppose. AltaGas agrees with the AESO that this method is not permitted by the EUA.</p> <p>ATCO Power – Oppose.</p> <p>CMH – Oppose.</p> <p>EnCana – Oppose.</p> <p>EPCOR – <i>no comment provided</i></p> <p>Fortis – Support.</p> <p>TCE – Support. For comments, refer to TCE letter.</p>	<p>See comments under Option 3 above.</p>
<p>3-D. The prospective rider will be calculated at the end</p>	<p>ADC – <i>no comment provided</i></p>	<p>The AESO believes that any prospective methodology will result</p>

AESO Proposal	Stakeholder Comment	AESO Response
<p>of the calendar year, and will be designed to restore the year-end deferral account balance to zero over the next calendar year.</p>	<p>AltaGas – Oppose. AltaGas agrees with the AESO that this method is not permitted by the EUA.</p> <p>ATCO Power – Oppose.</p> <p>CMH – Oppose.</p> <p>EnCana – Support. If a prospective deferral account method is to be adopted, EnCana recommends Proposal 3D.</p> <p>The AESO claims that s.14(3) of the EUA prohibits proposal 3D because the AESO must remain without profit or loss on an annual basis. With respect, the AESO is mistaken. First, deferral accounts do not cause a profit or loss; they are exactly defined, accounts that are deferred. In past financial statements, the AESO has booked such deferral amounts as accounts payable or receivables. Second, if the AESO's interpretation was correct then the existing deferral mechanism would also be unlawful. Since the AESO has not previously raised this concern we consider it to be without merit.</p> <p>EPCOR – Support.</p> <p>Fortis – Oppose.</p> <p>TCE – Oppose.</p>	<p>in some residual balance at year end — that is, it is impossible to perfectly match revenue and costs on a forecast annual basis. However, the AESO interprets subsection 14(3) of the EUA as requiring the AESO to match revenue and costs <i>as much as possible</i> on an annual basis. Planning to carry forward annual balances, especially where such balances could be large, does not meet the intent of subsection 14(3) in the AESO's opinion.</p> <p>Rather, the AESO believes it is appropriate to develop a process which targets an annual matching of revenue and costs to the extent practical.</p> <p>The AESO also believes other considerations, such as timeliness, make Option 3-D unacceptable.</p>
Structure of Prospective Rider		
<p>4. The prospective rider should be structured as a percentage of DTS rate charges by rate component.</p>	<p>ADC – Support. The ADC would support either of the methods proposed with the proviso that under option (b) (a deferral account rider structured as a percentage of rate charges by rate component) the interconnection charges are broken down into interconnection demand (\$/MW) and interconnection energy (\$/MWh).</p> <p>AltaGas – Indifferent.</p> <p>ATCO Power – Indifferent. This adds complication, however, it should minimize allocation changes caused by fluctuating loads, which in turn may result in a fairer methodology.</p> <p>CMH – CMH supports maintaining the \$/MWh structure of the current</p>	<p>Stakeholders generally support structuring the prospective rider as a percentage of DTS rate charges.</p> <p>The AESO was not aware of the import transmission cost requirements of the City of Medicine Hat Payment in Lieu of Tax Regulation. The AESO understands that the regulation (consolidated up to 105/2005) includes a formula for charges and credits based on demand in megawatts as well as on</p>

AESO Proposal	Stakeholder Comment	AESO Response
	<p>Rider C. This structure is simple, straightforward and for CMH fits easily with calculations of the “import transmission cost” per MWh that are required by EUA Alberta Regulation 235/2003 (City of Medicine Hat Payment In Lieu Of Tax Regulation). A prospective rider structured as a percentage of DTS rate changes by rate component does not.</p> <p>EnCana – Oppose. If a prospective deferral method is adopted, EnCana recommends that the AESO carry the deferral balances throughout the year, using Rider B to provide working capital if required. The deferral amount (by cost category) would then be rolled forward into the next annual GTA phase 1 filing. This approach is simple to implement and is understandable. The AESO however scores this approach (Option e, Figure1) the lowest in terms of its fairness and equity. EnCana disagrees with this assessment. Proposal 3, for example is systemically biased to shift costs/credits from Q1 to Q4 of each year. All prospective deferral methods suffer from the disconnection between those that cause the costs and those that incur the costs. If DTS load patterns are relatively stable from year-to-year than variances created in one year will be allocated back to the same customers, using the same seasonality. EnCana believes that there is a good prospect of consistent and repeated load patterns given the 5-year notice requirement of the tariff.</p> <p>EPCOR – Support.</p> <p>Fortis – Support.</p> <p>TCE – Support.</p>	<p>metered energy in megawatt hours, and therefore should be able to accommodate a rider which applies as percentage increase or decrease to the \$/MWh and \$/MW charges in the DTS rate.</p> <p>EnCana suggests that the AESO use Rider B during the year if required. Rider B is structured as a percentage rider, so the AESO interprets this as qualified support for a percentage rider approach.</p> <p>Please refer to Option 3 for comments about further discussion of the Figure 3 assessment of rider options.</p>
Definition and Treatment of Larger-Than-Normal Variances		
<p>5. The prospective rider will recover or refund no more than ±\$25 million in total in any quarter.</p>	<p>ADC – <i>no comment provided</i></p> <p>AltaGas – Indifferent.</p> <p>ATCO Power – Support.</p> <p>CMH – Support.</p> <p>EnCana – Oppose. Prospective deferral methods fail to be simple, understandable, and tractable when limitations such as Proposal 5 are introduced. EnCana recommends that if a prospective method is to be</p>	<p>Stakeholders generally support limiting the amount recovered through a prospective rider in any quarter.</p> <p>The AESO does not agree that specifying a limit makes a rider inappropriately complex and unmanageable. The AESO considers that at this time, with no experience of a prospective rider as</p>

AESO Proposal	Stakeholder Comment	AESO Response
	<p>used the AESO abandon the use of a quarterly Rider C and revert back to using deferral balances combined with Rider B. In this way any deferral amounts will be collected/refunded over the same period (12 months) as it was accumulated, thereby avoiding shocks and volatility in charges.</p> <p>EPCOR – Support.</p> <p>Fortis – Support.</p> <p>TCE – Support.</p>	<p>being discussed, setting a reasonable limit is appropriate. The AESO also believes that reverting back to use of Rider B will be less transparent and more unpredictable than other rider options.</p>
<p>6. Deferral account balances forecast to exceed \pm\$25 million at the end of a quarter will be accommodated through Rider B. through extension over more than one quarter, or through other mechanism to be proposed by the AESO.</p>	<p>ADC – The ADC directionally agrees with the intent to have any large adjustment be spread out – so as not to impact one quarter. It is apparent how moving larger than normal variances into the next quarter, or few quarters, fits with a methodology geared to bring a deferral account balance to zero at the end of a year. If the extension over additional quarters spans two partial years, the AESO may run into some of the same issues identified with the 12 month rolling recovery such as reduced transparency and difficulty aligning costs with approved revenue requirement.</p> <p>It may be prudent to allocate such large variances retrospectively to ensure the utmost fairness to customers, especially if such variances arose over a period of time and do not directly relate to the current year.</p> <p>AltaGas – Support.</p> <p>ATCO Power – Support.</p> <p>CMH – Support.</p> <p>EnCana – Oppose. Collecting part of the deferral account through Rider C and a second part through Rider B (which in turn will be refunded or replaced by a final rider at some future date) is not simple and will confuse customers. See comments on proposal 5.</p> <p>EPCOR – Support.</p> <p>Fortis – Support. Balances in excess of \pm\$25 million end of a quarter should be accommodated through extension over more than one quarter</p>	<p>The AESO agrees that spreading the recovery of larger-than-normal variances over additional quarters increases complexity and reduces transparency somewhat, but believes it is appropriate to set appropriate limits at this time.</p> <p>The AESO also supports not using Rider B as a default option for handling of larger-than-normal variances, as Rider B would reduce the stability and predictability of the prospective rider.</p> <p>Perhaps the most appropriate means to address larger-than-normal variances is for the AESO to propose a mechanism to handle them when they occur, in consultation with stakeholders at that time. Consideration could presumably include retrospective allocation if supported by a majority of stakeholders.</p>


AESO Proposal	Stakeholder Comment	AESO Response
	<p>or through other mechanism to be proposed by the AESO. We do not support the use of multiple riders to recover/refund deferral balances. One rider, specifically Rider C, should be sufficient without a second rider, specifically Rider B, being required.</p> <p>TCE – Support.</p>	
Additional Comments		
	<p>ADC – We thank you for the opportunity to provide comments and look forward to meeting with you to discuss.</p> <p>ATCO Power – Recognizing that this is new ground we should try it, assess it and be willing to adjust it if there are issues.</p> <p>EnCana – EnCana appreciates the AESO’s efforts to consolidate the issues and comments into a discussion paper.</p> <p>All comments are made on a “without prejudice” basis.</p> <p>EPCOR – Further exploration of the legitimacy of option 3-D is desirable.</p> <p>TCE – TransCanada has attached the Stakeholder Comment Form. In addition, TransCanada offers the following comments:</p> <ol style="list-style-type: none"> 1. In the Background of the Discussion Paper, the AESO limits the discussion and stakeholder input to DTS customers only. However, as the AESO has noted, the proposed calibration factor or Rider E in the 2006 GTA will recover the difference between costs and revenues related to losses for STS customers. This Rider states that “Every quarter a calibration factor is determined to recover or refund all accumulated and forecast differences between the anticipated costs of transmission system losses and the actual costs of transmission system losses, on a calendar year basis.” It is unclear from this statement whether this calibration factor will be generator specific or an across-the-board calibration factor (applicable equally to every generator). In the currently proposed loss factor 	<p>The AESO agrees that the prospective rider is a new approach, and that the approach should be adjusted, refined, and improved as experience is gained.</p> <p>The Deferral Account Adjustment Rider C will apply only to DTS customers. However, TCE correctly notes that the Losses Calibration Factor Rider E will apply to STS and other customers who pay losses charges, and Rider E will recover variances between revenue and costs related to losses. The design of the losses calibration factor rider is being discussed through the Losses Working Group, and should</p>

¹ Refer to Rider E in the AESO 2006 GTA and the *Transmission Regulation*, A.R. 174/2004 at s.21(1).

² *Ibid.*


AESO Proposal	Stakeholder Comment	AESO Response
	<p>methodology, it is possible that variances will arise between forecast losses and actual losses by individual generator that are significantly different than the aggregate differences on a across-the-board basis.</p> <p>In this case, the stated purpose of Rider E is to “adjust loss factors to ensure that the actual cost of losses is reasonably recovered through charges and credits on an annual basis”.¹ The proposed calibration factor may not satisfy the purpose in Rider E or the requirements of sections 19 and 21 of the <i>Transmission Regulation</i>.² Section 19(1)(a) and (c) require the ISO to make rules to reasonably recover transmission line losses by maintaining loss factors for each generating unit based on their location and contribution. In addition, section 19(2)(d) provides that the ISO must determine loss factors having regard to factors including “the loss factor in each location must be representative of the impact on average system losses by each respective generating unit or group of generating units relative to load.” As well, Section 21(1) provides that the ISO must make rules with respect to loss factors and that loss factors may be adjusted by a calibration factor to ensure that the actual cost of losses is reasonably recovered on an annual basis. The currently proposed calibration factor may not meet these requirements if it is based on forecast losses and not actual losses.</p> <p>TransCanada has been carefully monitoring the development of the new loss factor methodology. Of concern to deferral accounts is the reliance of the AESO on forecast information largely based on a previous year’s historical data. While the AESO can make adjustments for new generators or customer input on forecast operations, it is a given that actual losses will be different than forecast. Individual generators are not required to provide a more accurate forecast than a forecast based on actuals from a previous year. Some generators may not be able to accurately predict whether a turnaround will occur and the duration of the turnaround can be affected by inspections that occur during the turnaround. Therefore, it is unknown how much forecast error will occur in the new method. For large generation facilities, a small error in losses can amount to a significant amount. As an example, if losses are forecast to be 1% more than actual, for even one quarter for a 400 MW generating unit with an average pool price of \$50, the overpayment is \$438,000.</p>	<p>not be dealt with in this prospective rider methodology consultation process.</p>

AESO Proposal	Stakeholder Comment	AESO Response
	<p>TransCanada requests that the AESO seek input from stakeholders and resolve this matter in a timely fashion before the calibration factor is required for 2006.</p> <p>2. On page 4, the AESO states that “the reporting for a prospective deferral account rider methodology discussed above would be for information purposes only” and “that there would be no reconciliation of amounts as occurs in the retrospective methodology.” TransCanada sees considerable value in undertaking a reconciliation even where the deferral accounts are being done on a prospective basis. The AESO needs to demonstrate that it is neither incurring a loss or a profit, its amounts recovered through deferral accounts are appropriate and that individual customers have been allocated costs according to agreed upon mechanisms. These steps improve transparency and build trust in the accuracy of AESO billing practices. TransCanada requests more details on why the AESO is not prepared to provide a reconciliation at an aggregate level.</p> <p>Overall, TransCanada found the discussion papers helpful in identifying issues and in developing a recommended course of action. The Stakeholder Comment Forms are a useful tool to focus the discussion on decisions to be made and credible options available for stakeholder input. The Stakeholder Comment Forms are most useful when the AESO presents them with the least bias possible. To a large extent, the AESO has achieved this objective in these deferral account matters. The one potential exception is noted in item 3 above.</p>	<p>The AESO accepts parties’ interest in assessing the proposed prospective methodology against the current retrospective methodology, and is prepared to file a reconciliation under both approaches for 2006 after year-end. However, the AESO wishes to be clear that, assuming a prospective methodology is implemented for 2006, a retrospective methodology should not later be imposed. The comparison of both approaches prepared after 2006 year-end should only be used to revise or refine the rider to be used for future years.</p>



**2006 Deferral Account Rider
Prospective Methodology**


John Martin
Stakeholder Meeting
August 24, 2005 — Calgary



Agenda

- Review consultation to date
- Confirm conclusions to date
- Review principles for rider design
- Discuss AESO assessment of rider options
- Determine rider duration and recovery period
- Review next steps
- Discussion and questions


2



DA Rider Methodology Consultation

- Initial consultation on prospective deferral account rider methodology held in late 2004
- AESO committed to further consultation and an application for 2006 methodology in mid-2005
 - Losses would no longer be included in Rider C in 2006
- Stakeholder consultation meeting held June 7, 2005
- Discussion paper distributed July 14, 2005
- Stakeholder comments received July 29, 2005
- AESO responses distributed August 23, 2005


3



Conclusions to be Confirmed

1. DTS customers support implementation of prospective deferral account rider in 2006
2. Adjustments for 2005 and prior years would continue to be treated under a retrospective methodology
3. *Duration and recovery period remain to be established*
4. The prospective rider would be structured as a percentage of DTS rate charges by component
5. The prospective rider will recover or refund no more than ± 25 million in total in any quarter


4



Conclusions to be Confirmed (cont'd)

6. Deferral account balances in excess of ± 25 million in any quarter would result in the AESO consulting with stakeholders and proposing appropriate treatment.
7. For 2006, the AESO would report aggregate customer allocation under both the prospective methodology and the previous retrospective methodology, and consult with stakeholders on further refinements based on these results
8. The prospective rider would be reviewed and refined as experience is gained

5




Review and Weighting of Principles

- Simplicity and understandability
- Finality and closure
- Accuracy
- Stability
- Fairness and equity
- Timeliness
- Transparency
- Predictability of rates
- Practical and implementable

6

AESO Assessment of Rider Options


Rider option	(a)	(b)	(c)	(d)	(e)
Duration of rider between changes	Quarter	Quarter	Month	Quarter	Year
Period over which deferral account balance is recovered	Following Calendar Quarter	Remaining Calendar Year	Remaining Calendar Year	Next Twelve Months	Next Calendar Year
Assessment Against Principles (1 = highest score and 5 = lowest score)					
Simplicity and understandability	1	3	3	5	1
Finality and closure	3	3	3	3	1
Accuracy	2	3	1	4	5
Stability	5	3	4	2	1
Fairness and equity	2	3	1	4	5
Timeliness	2	3	1	4	5
Transparency	1	3	3	5	1
Predictability of rates	4	3	5	2	1
Practical and implementable	1	1	3	3	5
Total score	21	25	24	32	25




7

Rider Credits for Options (a) and (b)

Example Customer	(a) Next Quarter Zero Balance	(b) Year-End Zero Balance	Difference
A Largest DISCO	(\$25,592)	(\$25,617)	0.1%
B Average DISCO	(\$9,204)	(\$9,197)	(0.1%)
C Average DTS	(\$300)	(\$295)	(1.8%)
D Variable DTS	(\$31)	(\$27)	(10.3%)
E All Other DTS	(\$20,699)	(\$20,690)	(0.0%)




8



Determination of Rider Duration and Recovery Period

- AESO's current preference remains a prospective rider calculated each calendar quarter, designed to restore the year-end deferral account balance to zero over the remaining months of the year.

9



Next Steps

- Sep 7 Stakeholders to provide comments on matters discussed on August 24
- Sep 14 AESO to distribute comment matrix and responses
- Sep 30 AESO to file application for 2006 prospective rider methodology

10



Discussion and Questions

11



AESO Contacts

- John Martin
Manager, Regulatory
(403) 539-2468
john.martin@aeso.ca
- Carol Moline
Director, Accounting and Treasury
(403) 539-2504
carol.moline@aeso.ca
- Information can be accessed on www.aeso.ca by following path Quick Links ► Current Regulatory Activities ► AESO 2006 Prospective Deferral Account Rider Methodology

12

