

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

July 14, 2005

### **Background**

On June 7, 2005, the Alberta Electric System Operator (AESO) held a stakeholder consultation meeting to discuss its 2004 deferral cut-off date and the subsequent post cut-off adjustment process. Along with representatives from the AESO's Regulatory and Finance departments, the following parties attended: Alberta Direct Connect Consumers Association (ADC), AltaGas, ATCO Electric, ATCO Power, the Balancing Pool, EnCana, EPCOR, and FIRM Customers. All participants at the meeting had opportunity to discuss the AESO's proposals and provide further comments. The AESO is satisfied with the detail of the discussion at the meeting and appreciates the comments made by all parties.

The meeting was held in follow-up to previous consultation by the AESO in response to the AESO's filing of its 2003 Deferral Account Application (Application No. 138574) with the Alberta Energy and Utilities Board (EUB). During that proceeding 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 respecting the deferral account cut-off date and the treatment of post-cut-off adjustments. Additional information on the 2003 Deferral Account Application and related consultation is available on the AESO's website by following the path Quick Links ► Current Regulatory Activities, in the following sections:

- AESO 2004 Deferral Account Cut-Off Date and Related Issues Consultation, and
- 2003 Deferral Account Reconciliation Application 1348574.

Following a prior consultation meeting on March 16, 2005, on the 2004 deferral account matters, the AESO distributed a discussion paper on March 24. Stakeholders provided comments on the discussion paper, and on April 7 the AESO circulated a letter including the following conclusions for retrospective deferral account reconciliation applications:

- (i) The cut-off date for the annual deferral accounts reconciliation will be **August 31st** of the following year.
- (ii) The filing date for deferral accounts will be **mid-November**, or earlier, if possible.
- (iii) Material adjustments will be filed any time **before the close of the record** (that is, before the scheduled date for filing of reply argument).
- (iv) The AESO will make a one-time application for the \$27.5 million [updated to \$24.2 million in the AESO's Deferral Account Summary for May 2005] data adjustment that was identified in the AESO's 2005-2006 GTA, which relates to 2001-2003, and other post closing adjustments for 2003 and prior years.

In a May 19 letter inviting interested parties to the June 7 meeting, the AESO identified the following remaining issues to be resolved:

- (a) What amounts should be considered material and potentially require more detailed treatment than non-material amounts, both for AESO costs and AESO revenue?
- (b) How should *material* adjustments which occur *within* a certain time after the cut-off date be handled, and what is that time period (prior to EUB Decision, prior to close of record, or prior to reconciliation application)?
- (c) How should *material* adjustments which occur *after* the time period in (b) above be handled?
- (d) How should *any* adjustment (*material* or *non-material*) which relates to a year *prior* to the deferral account reconciliation year be handled?

During the June 7 meeting participants recommended that any process the AESO uses should address the issues of timeliness, accuracy, and consistency, as discussed at the March 16 meeting. However, there may be a tradeoff between attaining timeliness and attaining accuracy. If calculations are repeatedly redone to improve accuracy as adjustments arise, the conclusion of the process, and the final refunding or charging of deferral account balances to customers, will be delayed.

Participants also commented that the timing of an adjustment should not affect the financial outcome of reconciling that adjustment. That is, whether a material adjustment happens before or after the cut-off date, or even after the EUB issues its decision on a reconciliation application, the subsequent allocation of that adjustment to customers should remain the same.

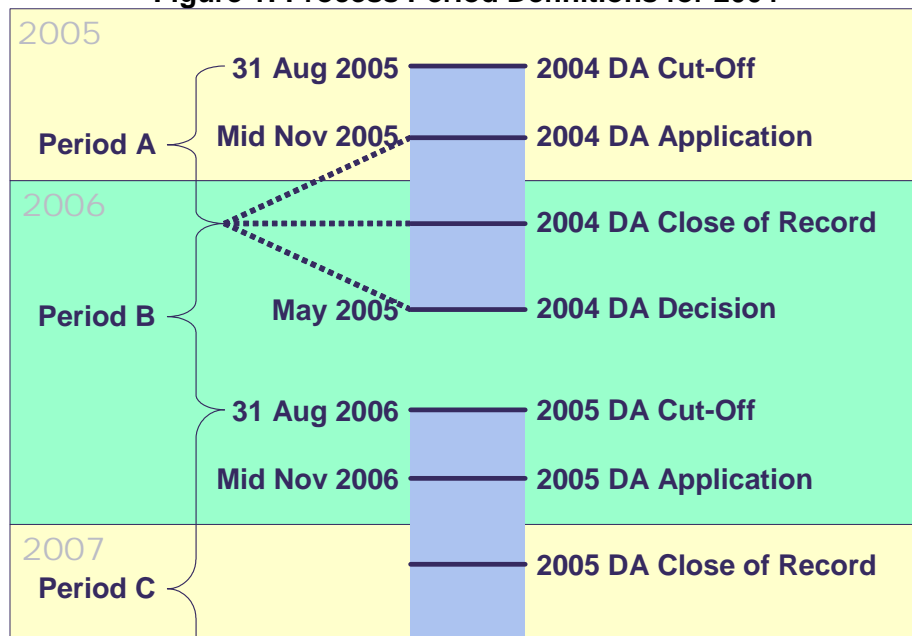
### **Process Period Definitions**

During the June 7 meeting the AESO defined three “periods” to facilitate discussion of the deferral account reconciliation process, as follows:

- **Period A** begins at the cut-off date for data to be included in a deferral account reconciliation, and ends at the latest date at which the reconciliation application will be refiled. This end date was proposed to be the close of the record, in conclusion (iii) of the AESO’s April 7 letter. However, some stakeholders had suggested Period A could end as early as the date the reconciliation application is filed or as late as the date on which the EUB issues its decision on the reconciliation application.
- **Period B** begins at the end of Period A, and ends at the cut-off date for data to be included in the next year’s deferral account reconciliation (that is, as the start of the next year’s deferral account reconciliation process).
- **Period C** begins at the end of Period B (the cut-off date for the next year’s deferral account reconciliation) and continues indefinitely.

These periods are illustrated in Figure 1, for the 2004 deferral account reconciliation process.

**Figure 1: Process Period Definitions for 2004**



Note: DA means Deferral Account

### End Date for Period A

As summarized above, the consultation process had earlier resulted in the conclusion that the cut-off date for data to be included in a deferral account reconciliation (that is, the **beginning** of Period A) would be August 31. Discussion at the June 7 meeting reviewed the latest date at which the reconciliation application would be refiled due to a material adjustment (that is, the **end** of Period A).

The AESO had concluded in its April 7 letter that material adjustments that occurred any time before the close of the record would result in a recalculation and refiling of the deferral account reconciliation. The AESO believes that using the close of the record as the end date for Period A is a reasonable compromise between accuracy and timeliness. Accuracy would be increased if the reconciliation was delayed to include material adjustment that arose later, while timeliness would be increased if the reconciliation was filed earlier. Using the close of record as the Period A end date balances these concerns.

Some participants suggested the end date for Period A should be the date of the EUB's decision on the deferral account reconciliation. Specific reference was made to the *Alberta Energy and Utilities Board Rules of Practice* (Alberta Regulation 101/2001), which states in section 14(2), "A party shall revise a document if...significant new information relating to the document becomes available before the proceeding is disposed of..."

The AESO believes that section 14(2) is complied with if the AESO clearly explains in its deferral account reconciliation application that the application relates to deferral account amounts that were recorded **prior to the cut-off date for the reconciliation**. Adjustments that occurred after the cut-off date would therefore not relate to the reconciliation application before the EUB, and would be dealt with in a future application as discussed later in this paper.

The AESO would still recalculate the reconciliation to include any material adjustments that arise before the close of record, and in doing so would re-set the cut-off date for the reconciliation. This would result in either a delayed application if the material adjustment occurred after August 31 but before the planned date for the application (expected to be mid-November), or in a refiling if the material adjustment occurred after the application (in mid-November) but before the close of the record. For example, if the reconciliation was being completed used a cut-off date of August 31 and a material adjustment arose on October 15, the reconciliation would be restarted using a cut-off date of October 31. The delayed application would then be filed in mid-January. If another material adjustment arose on February 15 (before the close of the record for the process resulting from the mid-January application), the AESO would then refile the reconciliation with a cut-off date of February 28. Further discussion of this process is described in the section on Treatment of Adjustments During Periods A, B, and C.

The AESO believes that setting the end of Period A to the date of the EUB decision could result in inefficient use of the EUB's time and resources, as the EUB could have already deliberated and prepared much of the decision on the deferral account reconciliation prior to receiving a refiling. Furthermore, the process discussed later in this paper should provide the same treatment of the adjustment amount in a future application as it would receive in a refiling of the current application. The AESO therefore believes the goals of timeliness, accuracy, and consistency would be achieved by setting the end of Period A to the close of the record.

Based on the above discussion, the AESO proposes:

1. Period A will end at the close of the record for the deferral account reconciliation proceeding (that is, before the scheduled date for filing of reply argument).

This proposal is numbered and presented as above in the stakeholder comment form included with this discussion paper, where parties can indicate support or opposition and provide additional comments. Stakeholders may also wish to support, oppose, or comment on the other alternatives discussed, which are numbered and included in the comment form as follows:

- 1-A. Period A will end at the filing of the deferral account reconciliation application.
- 1-B. Period A will end at the date the EUB issues its decision on the deferral account reconciliation application.

The dashed lines in Figure 1 also illustrate those three options.

### **Materiality**

The above discussion of recalculations and refilings during Period A suggested such work would be done only for *material* adjustments to the deferral account balances. A material adjustment is one that would have a significant impact on the amount of the deferral account balances allocated to the AESO's customers. However, the impact on the allocation to customers is not certain until all the reconciliation calculations are complete, and determining that an impact is not significant after completing the reconciliation work is not an efficient use of time and resources. Therefore, it is useful to determine materiality thresholds for deferral account adjustments, in advance of completing the allocation to customers.

Materiality was first discussed with stakeholders at the March 16 consultation meeting. The AESO provided additional information in its March 24 discussion paper, and stakeholders provided comments in response. Materiality was further discussed at the June 7 consultation meeting. During the discussions the AESO and participants agree that materiality thresholds should be considered separately for AESO costs and for AESO revenues.

**AESO costs** comprise wires, ancillary services, losses, and “own costs” cost components, as well as revenue offsets such as Customer-Owned Substation (COS) credits. Adjustments to costs affect the deferral account balance but do not affect the relative allocation of that balance between customers, since the deferral account balance is allocated based on AESO revenue collections from customers (except for losses which are allocated on production times pool price) and revenue collections are unaffected by adjustments to costs.

**AESO revenue** comprises interconnection, operating reserve, other system support, and transmission losses charges collected from customers. Adjustments to revenue affect both the deferral account balance and the basis for the allocation of that balance to customers. That is, a revenue adjustment will affect the revenue collection from an individual customer, and will therefore increase or decrease the deferral account balance allocated to that individual customer, irrespective of any change to the deferral account balance.

For adjustments to **AESO costs**, stakeholders generally agreed with a modified version of the materiality threshold proposed in the March 24 discussion paper:

2. For AESO costs, post cut-off adjustments would be considered material if the cumulative adjustments for a single cost component (wires, ancillary services, losses, or “own costs”) or the cumulative adjustments for total costs exceeded  $\pm 1\%$  of the AESO’s annual revenue requirement, which would equate to approximately  $\pm \$7.6$  million for 2004.

Such an adjustment to costs would correspondingly have a greater than  $\pm 1\%$  impact on the total revenue collection from an individual customer with respect to the deferral account reconciliation year, which participants agreed was a reasonable and practical materiality threshold.

For adjustments to **AESO revenue**, there was extensive discussion at the June 7 meeting. A “ $\pm 1\%$  of revenue requirement” threshold may be appropriate to test the materiality of changes to the deferral account balance due to a revenue adjustment. However, such a threshold would not test the materiality of changes on the deferral account allocation to the individual customer whose revenue was adjusted. In particular, it was difficult to assess what would constitute a “significant” impact on the deferral account allocation to a customer whose revenue was adjusted, given the wide range of annual revenue (from less than \$0.1 million to more than \$100 million) collected from the AESO’s customers.

Participants suggested that a revenue adjustment for a customer that resulted in a deferral account allocation change in the range of \$50,000 to \$100,000 or more for that customer should be considered material. Working backwards based on the 2003 deferral account reconciliation calculations approved by the EUB in Decision 2005-034, such individual impacts were estimated

to arise from customer revenue adjustments in the range of \$250,000 to \$500,000 or more. Participants asked the AESO to provide examples of how materiality thresholds of \$250,000 and \$500,000 for AESO revenue would affect the deferral account allocation to individual customers. The AESO has provided example calculations in the attached workbook.

The impact of a revenue adjustment on deferral account allocations depends both on the size of the deferral account balance and on the size of the revenue adjustment. The size of the deferral account balance has the greatest effect on the amount of the deferral account allocated, for all customers except those affected directly by a revenue adjustment. For the customer(s) affected directly by a revenue adjustment, the size of the revenue adjustment has the greatest effect. The example calculations in the attached workbook have been set up to allow different deferral account balances and different revenue adjustments to be entered in the green-shaded cells.

For its analysis, the AESO used a deferral account balance of \$15,000,000, which is representative of the DTS interconnection charges deferral account balance for the year 2003. The AESO also focused on the effect of revenue adjustments on direct connect DTS customers, as the effect on distribution utilities (DISCOs) is believed to be less significant given the greater amount of revenue collected from DISCOs and their ability to flow through AESO charges and refunds as part of their regulated rates. For the largest direct connect DTS customer, revenue adjustments of \$1,100,000 to \$2,500,000 would be required to result in a deferral account allocation change of \$50,000 to \$100,000. For all other direct connect DTS customers, revenue adjustments would have to be even greater to result in a similar deferral account allocation change. The AESO suggests this indicates a revenue adjustment materiality threshold of  $\pm$ \$1,000,000 would be appropriate.

The attached workbook allows different assumptions for deferral account balances and customer revenue adjustments to be used to examine the resulting changes to deferral account allocations.

The AESO is also concerned about the possibility that setting too low a materiality threshold for AESO revenue adjustments would result in repeated recalculations and, potentially, refilings, which would unreasonably delay the approval of the reconciliation and allocation of the deferral account balance. Participants asked the AESO to provide a list of adjustments which occurred between January 2004 and April 2005 related to prior years, excluding losses. This information is provided in Tables 2a and 2b in the attached workbook. Table 2a lists the amount of each adjustment, the production months affected, and the reasons for the adjustment. Table 2b is simply a summary of the revenue adjustments occurring on a month by month basis.

Table 2a includes a total of nine separate revenue adjustments, as well as the cumulative total of smaller adjustments less than  $\pm$ \$100,000. Of the nine adjustments, five would exceed a materiality threshold of  $\pm$ \$250,000 while only one would exceed a threshold of  $\pm$ \$1,000,000. The AESO considers the higher materiality threshold to be a more practical level, based on the examination of post-2003 revenue adjustments.

At the June 7 meeting, the AESO also presented the schedule that would have been used if the 2003 deferral account reconciliation had been filed in accordance with the materiality threshold for AESO costs discussed earlier. The AESO provides the following extended version of that

schedule, including recalculations if AESO revenue adjustments greater than  $\pm\$250,000$  were considered material.

**Figure 2: 2003 Schedule If Proposed Process Had Been in Place  
With a Materiality Threshold for Revenue Adjustments of  $\pm\$250,000$**

Activity	Data Cut-Off	Filing of Application
Preparation of 2003 Deferral Account Reconciliation Application	Aug 31 2004	Mid-Nov 2004
September 2004 revenue adjustment of (\$344,000) triggers recalculation	Sep 30 2004	Mid-Dec 2004
October 2004 cost adjustment of (\$7.8) million triggers recalculation	Oct 31 2004	Mid-Jan 2005
December 2004 cost adjustment of (\$27.5) million triggers recalculation	Dec 31 2004	Mid-Mar 2005
February 2005 revenue adjustment of \$1,082,000 triggers recalculation	Feb 28 2005	Mid-May 2005
March 2005 revenue adjustment of (\$318,000) triggers recalculation	Mar 31 2005	Mid-Jun 2005

For the 2003 deferral account reconciliation, the AESO would have completed six recalculations prior to filing the application, and a decision on the application would not be expected until around December 2005. Two of the recalculations (shaded in Figure 2), including the last, would result from revenue adjustments between  $\pm\$250,000$  and  $\pm\$1,000,000$ . The AESO is concerned that the deferral account reconciliation process is too long if it would not be settled for a full two years after the end of the year for which the deferral account is being reconciled, and provides further comments later in this discussion paper.

Based on the above discussion the AESO therefore proposes the following materiality threshold for AESO revenue adjustments:

3. For AESO revenue, post cut-off adjustments would be considered material if the cumulative adjustments for a single revenue component (interconnection, operating reserve, other system support, or transmission losses) for a single customer exceeded  $\pm\$1,000,000$ .

The AESO recognizes that some stakeholders favoured a lower materiality threshold during the June 7 consultation meeting and therefore includes the following alternative for comments:

- 3-A. For AESO revenue, post cut-off adjustments would be considered material if the cumulative adjustments for a single revenue component for a single customer exceeded  $\pm\$250,000$ .

### Treatment of Material Adjustments During Periods A, B, and C

Materiality thresholds will affect the treatment of adjustments in the different periods discussed earlier in this paper. Participants in the June 7 consultation meeting recommended that material adjustments receive the same treatment no matter which period they fall into. In general, the AESO agrees with this statement but had some concern over material adjustments which occur several years after the deferral account reconciliation year. Some parties suggested the AESO could use its judgment to determine how to handle material adjustments which occur some time after a deferral account year, whether through separate application or by incorporation into a future filing. As well, the AESO notes that the size of adjustments appears to decrease over time, with most material adjustments (based on the thresholds proposed above by the AESO) occurring within one and a half years of the deferral account year.

Discussion at the consultation meeting resulted in the following approach to treatment of material adjustments for the 2004 deferral account reconciliation during Period A, B, and C:

**Figure 3: Treatment of Material Adjustments Relating to 2004 During Periods A, B, and C**

Period	Example Dates From Figure 1	Treatment of Material Adjustments During Period
Period A (2004 data cut-off to 2004 close of record)	Sep 2005 to Feb 2005	Recalculation and, if necessary, re-filing of 2004 deferral account reconciliation
Period B (2004 close of record to 2005 data cut-off)	Mar-Aug 2005	Recalculation included in 2005 deferral account reconciliation
Period C1 (2005 data cut-off to 2005 close of record)	Aug 2005 to Feb 2006	Recalculation included in 2005 deferral account reconciliation
Period C2 (after 2005 close of record)	Mar 2006 or later	Allocated in 2006 or later deferral account reconciliation but based on 2004 approved allocators

The AESO supports the above approach as a reasonable compromise between accuracy and timeliness. Material adjustments in Periods B and C1 would be “held” until the next year’s deferral account reconciliation application, but would then be allocated in the same manner as if the original year’s deferral account reconciliation had been recalculated and refiled. The AESO believes there is also merit in considering using this approach for adjustments in Period A. As discussed in the preceding section, the AESO is concerned with delays in the filing and approval of a deferral account reconciliation application. It seems inappropriate to delay finalization of a \$30,000,000 deferral account balance because of a \$1,000,000 revenue adjustment. As seen by the example schedule provided for 2003 adjustments in the preceding section, finalization of a deferral account reconciliation could be delayed by several months by a few material adjustments.

The AESO therefore proposes that all material adjustments in Periods A and B (from the data cut-off date for the current deferral account year to the data cut-off date for the next deferral account year) be fully reconciled in the next year’s deferral account application. In other words, the 2004 deferral account application in mid-November 2005 would include the initial reconciliation of the 2004 deferral account and a re-reconciliation of the 2003 deferral account.

The 2003 re-reconciliation would include all adjustments relating to 2003 and occurring before August 31, 2005, reconciled on a production month basis. Similarly, the 2005 deferral account application in mid-November 2006 would include the initial reconciliation of the 2005 deferral account and a re-reconciliation of the 2004 deferral account. The AESO believes this proposal addresses its concern about timeliness of settling deferral account and stakeholders' concern about accuracy of the deferral account reconciliation.

Based on recent experience, the AESO does not expect material adjustments to occur in Period C (which includes Periods C1 and C2 in Figure 3). However, if such material adjustments did occur in Period C, the adjustment amounts would be allocated to customers based on the allocators approved by the EUB in the most recent deferral account reconciliation decision for the deferral account year (referred to as the "frozen allocators" during the June 7 meeting). Such allocators would not be adjusted for changes to AESO revenue collections from individual customers nor for changes to volumes or pool price for losses. The AESO considers this to be a practical and efficient approach given the small likelihood that material adjustments will occur in Period C.

The AESO therefore proposes the following treatment of material adjustments:

4. Material adjustments occurring in Periods A or B will be included in a re-reconciliation of the deferral account in the next year's deferral account reconciliation application.
5. Material adjustments occurring in Period C will be allocated to customers by production month based on the most recent EUB-approved allocators for the deferral account, in the next deferral account reconciliation application filed by the AESO.

It is possible that the re-reconciliation of a deferral account year will delay the next year's reconciliation application beyond the expected mid-November filing date, since in effect two years will need to be reconciled rather than one. However, this is not expected to delay the filing beyond the delays expected if material adjustments in Period A were to be included. The AESO will assess the workload and schedule impact as it prepares the 2004 deferral account reconciliation and 2003 deferral account re-reconciliation application later this fall (provided stakeholders support this approach).

#### **Treatment of Non-Material Adjustments During Periods A, B, and C**

Participants in the June 7 consultation meeting generally agreed that non-material adjustments should not trigger a separate recalculation or re-filing or require detailed deferral account reconciliation. The nature of a non-material adjustment is that it would not have a significant effect on the deferral account amounts allocated to any individual customer. Therefore, non-material amounts can be "held" and allocated to customers in a more general manner in the next deferral account reconciliation application filed by the AESO.

This was referred to as a "13th month" treatment during the consultation meeting, and simply refers to a method of collecting revenue and cost adjustments in a future year's application without associating them with a specific month of that future year. The "13th month" amounts are instead allocated on a basis other than a month in the future year. In effect, adjustments for

any period other than the year of the deferral account being refiled are segregated into a non-specific month.

In the AESO's 2003 deferral account reconciliation application, cost and revenue adjustments related to years prior to 2003 were accumulated in a "13th month" and allocated based on the 2003 annual revenue, which comprised total January 2003 to December 2003 revenue plus prior year revenue adjustments that had been included in the 2003 deferral account. This approach was discussed during the June 7 consultation meeting, and a different approach was suggested for future years.

First of all, if a refiling or re-reconciliation is required to address a material adjustment, all non-material adjustments for the deferral account year would also be included in the refiling or re-reconciliation.

However, if no material adjustments occur for a deferral account year, then non-material adjustments would accumulate in a "13th month" and be allocated in the next deferral account reconciliation application filed by the AESO. The non-material adjustments would be assigned to the production months of the original deferral account year to which they relate, and allocated based on the monthly allocators approved by the EUB in the most recent deferral account reconciliation decision for the deferral account year. If monthly allocators were not approved for the year, the previously-approved annual allocators would be used. The AESO notes that to date annual allocators have been approved for 2000 and 2001, and monthly allocators for 2002 and 2003.

The AESO therefore proposes the following treatment of material adjustments, based on proposals 4 and 5 in the preceding section:

6. If a material adjustment occurs in Periods A or B, all non-material adjustments in Periods A and B will be included in the re-reconciliation of the deferral account in the next year's deferral account reconciliation application.
7. If no material adjustments occur in Periods A or B, all non-material adjustments in Periods A and B will be allocated to customers by production month based on the most recent EUB-approved allocators for the deferral account, in the next year's deferral account reconciliation application.
8. All non-material adjustments occurring in Period C will be allocated to customers by production month based on the most recent EUB-approved allocators for the deferral account, in the next deferral account reconciliation application filed by the AESO.

The AESO considers the above proposal to be a practical and efficient approach given the materiality thresholds previously discussed and the minimal impact on customers of non-material adjustments. The AESO also provides the following summary for the proposed treatment of material and non-material amounts as discussed above:

**Figure 4: Treatment of Adjustments Relating to 2004 During Periods A, B, and C**

Period and Sample Dates	Treatment of Material Adjustments	Treatment of Non-Material Adjustments
Period A and B Sep 2005 – Aug 2006	Re-reconciled in 2005 deferral account reconciliation application	Included in re-reconciliation in 2005 reconciliation application
	No material adjustments	Allocated based on previously-approved 2004 monthly allocators in 2005 reconciliation application
Period C Sep 2006 – Aug 2007	Allocated based on previously-approved 2004 monthly allocators in 2006 reconciliation application	
Period C (cont'd) Sep 2007 – Aug 2008	Allocated based on previously-approved 2004 monthly allocators in 2007 reconciliation application	

The AESO provides the following as an example schedule of filings assuming material adjustments occurred in each year following a deferral account reconciliation application:

**Figure 5: Example Schedule of Deferral Account Reconciliation Filings**

Date	2003 Deferral Account Process	2004 Deferral Account Process	2005 Deferral Account Process
November 2004	Recalculation and refiling of 2003 deferral account reconciliation	Calculation and filing of 2004 deferral account reconciliation	—
November 2005	Allocation of adjustments using 2003 allocators approved in Nov 2004 refiling	Recalculation and refiling of 2004 deferral account reconciliation	Calculation and filing of 2005 deferral account reconciliation
November 2006	Allocation of adjustments using 2003 allocators approved in Nov 2004 refiling	Allocation of adjustments using 2004 allocators approved in Nov 2005 refiling	Recalculation and refiling of 2005 deferral account reconciliation
November 2007	Allocation of adjustments using 2003 allocators approved in Nov 2004 refiling	Allocation of adjustments using 2004 allocators approved in Nov 2005 refiling	Allocation of adjustments using 2005 allocators approved in Nov 2006 refiling

**Current Outstanding Material Adjustment Relating to Losses**

A \$27.5 million adjustment relating to 2001-2003 losses was identified in the AESO’s 2005-2006 General Tariff Application proceeding and discussed briefly during the June 7 consultation meeting. The amount of the adjustments has since been updated to \$24.2 million, as noted in the AESO’s Deferral Account Summary for May 2005. In its April 7 letter to stakeholders, the AESO stated it would make a one-time application to address this adjustment and other post-closing adjustments for 2003 and prior years. This proposal was based on the materiality thresholds and the treatment of material adjustments discussed with stakeholders up to that time.

Given the further discussion with stakeholder and proposal 4 above which recommends including material adjustments occurring in Periods A or B in a re-reconciliation of the deferral account in the next year's deferral account reconciliation application, the AESO suggests a one-time application may no longer be required.

All parties agree the \$24.2 million adjustment is material. However, settlement of the adjustment was only finalized in June 2005. The AESO therefore suggests it is appropriate to include the adjustment in the 2003 re-reconciliation in the AESO's 2004 deferral account reconciliation application. The AESO believes a separate application would be an inefficient use of all parties' time and resources, given that all adjustments up to and including August 2005 would be included in the 2003 re-reconciliation if the AESO's proposal 4 is supported by stakeholders.

The AESO therefore proposes the following:

9. The \$24.2 million adjustment relating to 2001-2003 losses will be included in the 2003 re-reconciliation to be filed with the AESO's 2004 deferral account reconciliation application.

The AESO recognizes that this matter did not receive extensive discussion during the June 7 consultation meeting, and provided parties with the opportunity to comment on the following alternative:

- 9-A. The \$24.2 million adjustment relating to 2001-2003 losses will be addressed in a separate application by the AESO as soon as practical.

The AESO expects such a separate application could not be filed before September 2005 at the earliest, and notes that the 2004 deferral account reconciliation application may be filed as early as mid-November 2005.

### **Next Steps**

The AESO apologizes for the delay in providing this discussion paper to stakeholders, but hopes that the additional discussion and examples included with it are helpful. The AESO would appreciate stakeholder feedback on the proposals and alternatives discussed in this paper using the attached comment form. Stakeholders are requested to return all comments to the AESO by **July 29, 2005**. The AESO will post all comments on its website and distribute a comment matrix with AESO comments by August 17, 2005.

Comments are to be provided to Randeep Nota at [randeep.nota@aeso.ca](mailto:randeep.nota@aeso.ca). If you have questions on the 2004 deferral account process matters discussed in this paper or on the consultation process, please contact Randeep Nota at (403) 539-2468 in Calgary or by email at [randeep.nota@aeso.ca](mailto:randeep.nota@aeso.ca).

Following the posting of stakeholder comments, parties will be invited to provide additional comments by August 26, 2005. The AESO will then distribute its final proposal for the 2004 deferral account reconciliation process by September 9, 2005.

All information on the deferral account cut-off date and post cut-off adjustment process is available on the AESO's website by following the path Quick Links ► Current Regulatory Activities ► AESO 2004 Deferral Account Cut-Off Date and Related Issues Consultation.