

IN THE MATTER OF the Alberta Electric System Operator (the “AESO”) tariff and rates approved by the Alberta Energy and Utilities Board (“Board”) pursuant to sections 30 and 119 of the *Electric Utilities Act* S.A. 2003 c.E-5.1 (“Act”).

AND IN THE MATTER OF an Application for Board approval of the AESO’s deferral account balance reconciliation for the period January 1 to December 31, 2003.

**AESO
2003 DEFERRAL ACCOUNT RECONCILIATION
APPLICATION RE-FILING**

December 14, 2004

I. INTRODUCTION

This re-filing of the 2003 Deferral Application is made in response to the Board's ruling in its letter dated September 27, 2004, directing the AESO to provide all costs and all customer revenue on a "production month" versus "accounting month" basis. The Board's ruling was made subsequent to a Motion made by a customer dated August 25, 2004, requesting the Board to order the AESO to provide more complete responses to certain information requests (the "Motion"). In particular, the Motion sought information with respect to the differences arising out of the use of "production month" data in contrast to the AESO's proposed use of "accounting month" data in reconciling the 2003 deferral accounts.

This Application should be read in conjunction with the previously filed Application and information requests for additional support. Detailed information that has not changed from previously filings is not repeated in this Application unless required.

This Application is organized as follows:

- **Section II** provides a brief background and summary.
- **Section III** describes the methodology used by the AESO to:
 - i. record the 2003 deferral account revenues and costs on a "production month" basis and
 - ii. allocate the deferral account balances to individual customers.
- **Section IV** describes the methodology the AESO proposes to use in refunding and/or collecting individual customer deferral account balances for 2003.
- **Section V** Relief Request
- **Section VI** Communications
- **Appendices** attached to this Application provide the following supporting information:

Appendices A and B from the previous filings have not been revised for this Application and are not attached.

Appendix C: 2003 Customer Summary

- i) by "production month"
- ii) by "accounting month" based on the August 20th re-filing
- iii) a comparison of "production month" and "accounting month" results

Appendix D: 2003 Customer Allocation Detail by "production month"

II. BACKGROUND AND SUMMARY

On an annual basis, the AESO prepares a deferral account reconciliation to allocate the transmission deferral account balance to transmission customers. For a particular reconciliation year, the monthly deferral account balances are determined and allocated to customers on a monthly basis based upon a customer's proportional share of the industry revenue collections by rate class and rate component during that month (except for losses which are based on volumes times pool price). The sum of the twelve months in the reconciliation year is used for the financial settlement of the annual deferral account reconciliation.

In order to prepare the monthly deferral account reconciliation, the annual revenues and costs are assigned to a calendar month. There are two options that can be used to assign revenues and costs, either by "accounting month" or by "production month". In the 2003 Deferral Account Reconciliation Application ("2003 DAR") filed on June 4, 2004 followed by adjustments made in the June 30th errata and August 20th information requests, the AESO filed the 2003 deferral account reconciliation using the "accounting month" basis for all revenues and costs, with the exception of losses¹. In response to the Board's ruling for the AESO to present the 2003 revenue and cost data on a "production month" basis, this re-filing has been prepared.

Using an "accounting month" approach, revenues and costs are recorded in the month the financial transaction occurred, irrespective of the production period that it relates to. This means that for transmission revenues, all billing adjustments are associated with the month that the adjustment appears on the AESO's invoice and that transmission costs are associated with the accounting month that the third party invoice is received and paid. This approach mirrors the AESO's financial records. Using a "production month" approach, revenues and costs are recorded in the month the transaction relates to. For example, a billing adjustment for February 2003 that occurred in May 2003 would be recorded in the February 2003 "production month".

Transmission revenues will be adjusted subsequent to the "production month" for meter data changes, contractual changes or billing corrections. Transmission costs are typically adjusted for a delayed receipt of a supplier invoice or for a final EUB decision on wire costs or regulatory hearing costs.

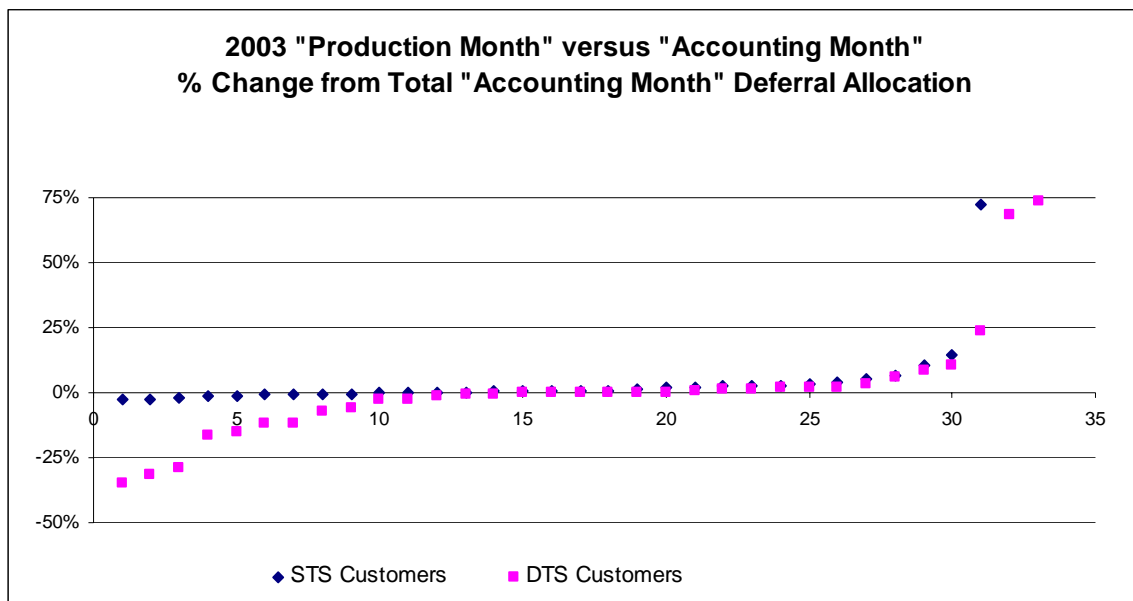
As identified in the August 20th information request responses, the AESO used a January 31, 2004 cut-off date for the inclusion of revenue and cost data in the 2003 deferral account reconciliation, with the exception of line loss costs that were updated to include final 2003 settlement data available at the end of August 2004. In preparing this

¹ Due to the unique nature of losses, the recording of revenues and costs and the methodology to allocate deferral account balances is different than all other rate components (Operating Reserves, Interconnection Charges, etc.). In the DAR, all losses revenues and costs were recorded by "production month" with pre-2003 revenues and costs allocated equally across the twelve months in 2003.

Application using the “production month” approach to the 2003 deferral account reconciliation, the AESO did not incorporate any new revenue or cost data that was not included in the August 20th re-filing. The association of the revenue and costs items into a “production month” as opposed to an “accounting month” does not change the annual revenues, costs or deferral account balance; it simply reallocates the amounts into different months. The reallocation to “production months” will change the monthly deferral account balances and impact in the allocation percentages used to assign deferral account balances to individual customers.

The following graphs illustrate the percentage and dollar value impact to individual customers based on the change to the “production month” recording of revenues and costs (further detail is provided in Appendix C). The percentage change analysis represents the difference in the “accounting month” and “production month” approaches compared to the total customer deferral account balance allocation (pre-Rider C) under the “accounting month” approach.

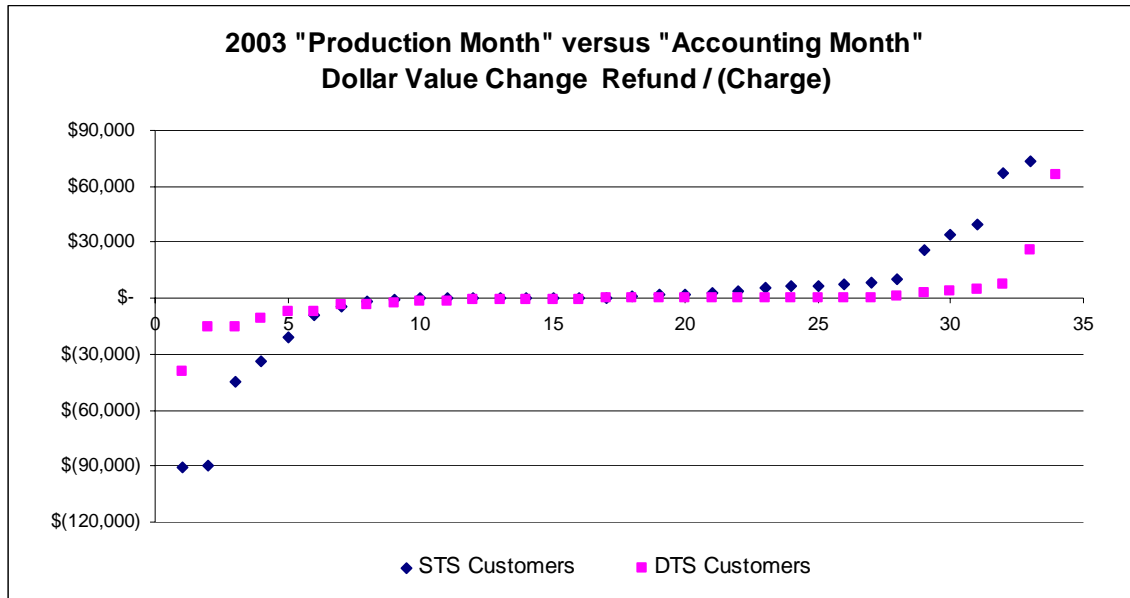
Graph 1.0 Percentage Change from Total “Accounting Month” Deferral Allocation



For STS customers, this graph illustrates that 10% (3 out of 31 customers) will have a 10% or greater change in their overall deferral account allocation using the “production month” compared to the “accounting month” approaches. For the three STS customers with changes greater than 10%, the corresponding dollar amounts (and percentage changes) are \$7,490 (72%), \$172 (14%) and \$139 (10%).

For DTS customers, 33% (11 out of 33 customers) will have a percentage change of 10% or greater. A detailed review shows that for the 11 DTS customers, the average absolute value of the change in the “production” versus “accounting” month approaches equates to a \$4,050 change.

Graph 2.0 Dollar Value Change Refund/(Charge)



Read in conjunction with Graph 1.0, this graph illustrates that while there are 10 customers (both STS and DTS) that have a greater than \$30,000 adjustment to their deferral account allocation based on the “production month” approach, the impact to these customers does not represent a significant percentage change.

III. DEFERRAL ACCOUNT RECONCILIATION APPROACH

To comply with the September 27, 2004 EUB request for “production month” data, the approach that the AESO used to reconcile the 2003 deferral account balances required modifications to incorporate this change. The following section describes the areas that have been modified.

1. Pre-2003 Revenues and Costs

The annual reconciliation of the deferral account balances will always include the carryover of adjustments related to revenues and costs from prior years. The carryover is a result of two factors:

- i. the AESO uses a January 31 cut-off date for revenue and costs to be included in the current year deferral account reconciliation which requires any subsequent adjustments to be included in the following year deferral account reconciliation, and
- ii. adjustments continue to occur after significant time delays, for items such as meter data adjustments, EUB Decisions on approved Transmission Facility Owner wire costs, disputed ancillary service costs, etc.

In preparing the deferral account reconciliation by “production month” all pre-2003 revenues and costs were segregated from the 2003 production data; in the detailed spreadsheets this meant a new tab was included titled “Pre-2003 Def Bal Allocation”. The allocation of this deferral account balance to individual customers is discussed in the following section.

In the “accounting month” reconciliation, the prior year revenue and cost adjustments were included in the month the transaction occurred, with the exception of losses revenue and costs which were allocated equally across all months in 2003.

The pre-2003 revenue adjustment (for all rate classes and rate components) was an overall decrease in revenues by \$1.1 million. As a result of the allocation to “production months”, the 2003 monthly revenues have increased from the “accounting month” approach and the pre-2003 revenue adjustment data is a reduction of \$1.1 million.

The pre-2003 expense adjustment (for all rate classes and rate components) was an overall increase of \$9.3 million². As a result of the allocation to “production months”, the 2003 monthly costs have decreased and the pre-2003 cost adjustment data includes a cost of \$9.3 million.

² Included in this amount is \$8.6 million related to Other Industry Costs (\$5.7 million specifically related to the 2003 approval of 2001/2002 congestion management hearing costs), \$0.9 million related to increased Ancillary Service costs and other small adjustments

The net impact is a pre-2003 deferral account balance of approximately \$10.4 million of additional charges made to customers in the 2003 deferral account reconciliation. Note that this amount is identical to the original “accounting month” approach, it is only now segregated with additional transparency.

An alternative approach to record the pre-2003 revenues and costs would be to allocate these amounts equal across all months in 2003. This alternative was not selected as one of the main objectives of this re-filing is to allocate deferral account balances on a “production month” basis and a general allocation of this type would not be consistent with that objective.

2. Allocation of Pre-2003 Deferral Account Balance

For all rate class and rate components, with the exception of losses, the monthly deferral account balance is allocated to individual customers based on each customer’s proportional share of the total industry revenue by rate class and rate component during that period. This is the approach that was used in the 2000 to 2003 deferral account reconciliation process using the “accounting month”.

To accommodate the prior year adjustments that were segregated using the “production month” reporting, this approach was modified. The allocation of the pre-2003 deferral account balances was made using the sum of individual customer’s 12 month revenues by rate class and rate component together with the customer’s pre-2003 revenue adjustments³. Given that the pre-2003 deferral accounts are closed and that these adjustments do not relate to 2003, any method of associating the deferral account balance to 2003 customers is considered subjective. The approach chosen by the AESO is considered to be a fair and reasonable approach as all 2003 revenue amounts and prior year revenue adjustments are associated with the pre-2003 deferral account balances and monthly revenue fluctuations are not an issue.

³ Appendix C has segregated the pre-2003 customer revenue adjustments in a tab titled “Pre-2003 Revenue Adj”.

IV. PROPOSED METHOD OF REFUNDING/COLLECTING

The AESO proposes to make a one-time payment/collection option similar to that used to settle the 2000-2002 deferral account balances. This approach is consistent with the AESO's 2000-2002 Deferral Account Application approved by the Board.

The overall cash flow impact is manageable, recognizing that the individual refunds to, and collections from, each customer must be administered within a 30 to 60 day timeframe in order to ensure cash flow stability for the AESO. Under this option, the AESO proposes to refund or collect the amounts for each customer within 60 days from the date of the Board decision regarding this application.

Although the AESO favors the one-time payment/collection option to expedite the final resolution and financial settlement related to the 2003 deferral account balances, it appreciates that it is not in a position to determine if this option presents a financial burden to its customers. If this option has this effect, then the AESO considers it reasonable to offer a 3-month payment option, including carrying charges, similar to that offered to customers in Board Decision 2003-099 for the 2000-2002 deferral account balances.

V. REQUESTED RELIEF

Based on the foregoing, the AESO respectfully requests the following approval from the Board:

1. Relief that the AESO has responded adequately and appropriately to the Board's direction in its letter dated September 27, 2004, directing the AESO to provide all costs and all customer revenue on a "production month" basis.
2. Approval of the 2003 Deferral Account Balance Reconciliation calculations as provided in Appendix D of this December 14th, 2004 Application re-filing.

Or

Approval of the 2003 Deferral Account Balance Reconciliation calculations as provided in Appendix D of the August 20th, 2004 Application re-filing.

3. Approval to collect and refund amounts through use of a one-time payment/collection option similar to that used to settle AESO's 2000-2002 deferral account balances as more particularly described in Section IV of this Application.
4. Such further and other relief as the AESO may request or as the Board may prescribe.

VI. COMMUNICATIONS

Communications related to this Application should be directed to the Alberta Electric System Operator and to its Counsel as follows:

Alberta Electric Systems Operator Calgary Place 2500, 330 – 5 th Avenue SW Calgary, AB T2P 0L4	Attention: Mr. Robert Senko Telephone: (403) 539-2786 Facsimile: (403) 539-2524 Email: rob.senko@aeso.ca
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ALL OF WHICH is respectfully submitted this 14th day of December, 2004.

ALBERTA ELECTRIC SYSTEM OPERATOR

Per: _____

Robert Senko
Director, Regulatory Affairs

APPENDIX C

2003 CUSTOMER SUMMARY



APPENDIX C 2003
Customer Summary.x

APPENDIX D

2003 CUSTOMER ALLOCATION DETAIL by “production month”



Appendix D 2003
Customer Allocation E