Agenda

- Contents of application
- Background
- Summary of deferral accounts
- Deferral reporting program
- Variance analysis
- Deferral account reconciliation
- Customer allocation
- Summary of customer results
- Future deferral account reconciliations
- Review of detailed information in appendices
Meeting Objectives

- Familiarity with application contents
- Understanding of how deferral account balances were determined and how balances were allocated to customers
- Expectations for balance of this proceeding and for future deferral account applications
- Respond to questions about application and methodology

2004-2005 Deferral Account Reconciliation Application

- On December 1, 2007, the AESO filed a comprehensive deferral account reconciliation application for 2004 and 2005 with the Alberta Energy and Utilities Board (EUB, now the Alberta Utilities Commission or AUC)
- The application also included
  - a second deferral account reconciliation for 2003, and
  - reconciliation of deferral account adjustments for 1999 to 2002
- The application was prepared using a software program developed by the AESO to handle the large quantity of data involved in multi-year deferral account reconciliations
What Was Filed in the Application?

1. Background and specific requests for approval
2. Summary of process
3-4. First reconciliations of 2005 and 2004 deferral accounts
5. Second reconciliation of 2003 deferral account
6. Adjustments to 1999-2002 deferral accounts
7-8. Allocating, refunding, and collection deferral account amounts
9. Responses to directions from prior decision

What Was Filed in the Appendices?

A. Summary of 2004-2005 stakeholder consultation
B-C. Reconciliation of deferral account balances to income statements and balance sheets
D. AESO annual reports
E. Reconciliation of inter-year adjustments
F. Detail of “other revenue” accounts
G. Line losses by month
H. Summary of allocations to customers
I-M. Detailed allocations to customers by month and year
N. Reconciliation of Rider C
Background

Pages 4-6

1999-2000 deferral account application
- Filed in October 2000; no formal decision

2000-2002 deferral account application
- Filed in September 2003; Decision 2003-099 issued December 2003
- Losses by production month; other costs by accounting month

2003 deferral account application
- Filed in June 2004; Decision 2005-034 issued April 2005
- All costs on production month basis
- Prior year costs allocated on current year revenue

Background (cont’d)

Pages 4-6

Decisions 2003-099 and 2005-034 included several directions
- To evaluate a prospective rider methodology
- To propose a schedule for earlier reconciliations
- To propose a methodology to address prior year adjustments
- To improve data quality and accuracy of process

Stakeholder consultation on deferral accounts conducted from November 2004 to December 2005
- Generally, accuracy should be goal rather than speed
- Second and third reconciliations would result in greater accuracy
Background (cont’d)

• 2004 deferral account application initially proposed for December 2005

• Delays occurred
  – Because of complexity of multi-year reconciliations
  – To include 2005 deferral account reconciliation
  – To develop software program to automate process
  – Due to other priorities and resource constraints

• 2004-2005 deferral account application (including 2003 second reconciliation) filed December 2007

Deferral Account Characteristics

<table>
<thead>
<tr>
<th>Deferral Year</th>
<th>Reconciliation Basis</th>
<th>Adjustment Basis</th>
<th>Attribution Period</th>
<th>Allocation Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>production</td>
<td>—</td>
<td>month</td>
<td>2005</td>
</tr>
<tr>
<td>2004</td>
<td>production</td>
<td>—</td>
<td>month</td>
<td>2004</td>
</tr>
<tr>
<td>2003</td>
<td>production</td>
<td>—</td>
<td>month</td>
<td>2003</td>
</tr>
<tr>
<td>2002</td>
<td>accounting(^1)</td>
<td>production</td>
<td>month</td>
<td>2002</td>
</tr>
<tr>
<td>2001</td>
<td>accounting(^1)</td>
<td>production</td>
<td>year</td>
<td>2001</td>
</tr>
<tr>
<td>2000</td>
<td>accounting(^1)</td>
<td>production</td>
<td>year</td>
<td>2001</td>
</tr>
<tr>
<td>1999</td>
<td>accounting</td>
<td>production</td>
<td>year</td>
<td>2001</td>
</tr>
</tbody>
</table>

\(^1\) All costs reconciled on accounting basis except losses on production basis
### Summary of Deferral Accounts

Table 2-2, page 13

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interconnection</td>
<td>431.4</td>
<td>381.0</td>
<td>393.5</td>
</tr>
<tr>
<td>Losses</td>
<td>180.7</td>
<td>138.4</td>
<td>216.5</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>217.2</td>
<td>236.2</td>
<td>237.9</td>
</tr>
<tr>
<td>Other System Support</td>
<td>2.4</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>831.8</td>
<td>757.8</td>
<td>850.1</td>
</tr>
<tr>
<td>Wires</td>
<td>(429.6)</td>
<td>(390.2)</td>
<td>(368.8)</td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>(189.9)</td>
<td>(126.1)</td>
<td>(177.4)</td>
</tr>
<tr>
<td>Losses</td>
<td>(202.0)</td>
<td>(142.2)</td>
<td>(156.8)</td>
</tr>
<tr>
<td>Other Industry</td>
<td>(5.3)</td>
<td>(5.0)</td>
<td>(9.3)</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>(30.3)</td>
<td>(26.3)</td>
<td>(29.4)</td>
</tr>
<tr>
<td><strong>Total Costs Paid</strong></td>
<td>(857.2)</td>
<td>(689.8)</td>
<td>(741.6)</td>
</tr>
<tr>
<td>Surplus (Shortfall)</td>
<td>(25.4)</td>
<td>68.0</td>
<td>108.5</td>
</tr>
</tbody>
</table>

### Summary of Amounts After Rider C

Table 2-2, page 13

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>831.8</td>
<td>757.8</td>
<td>850.1</td>
</tr>
<tr>
<td>Total Costs Paid</td>
<td>(857.2)</td>
<td>(689.8)</td>
<td>(741.6)</td>
</tr>
<tr>
<td><strong>Surplus (Shortfall)</strong></td>
<td>(25.4)</td>
<td>68.0</td>
<td>108.5</td>
</tr>
<tr>
<td>Rider C Collection (Refund)</td>
<td>18.7</td>
<td>(72.1)</td>
<td>(119.5)</td>
</tr>
<tr>
<td><strong>Net Surplus (Shortfall)</strong></td>
<td>(6.8)</td>
<td>(4.1)</td>
<td>(11.0)</td>
</tr>
</tbody>
</table>
### Summary of Adjustments

Table 2-2, page 13

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>(1.9)</td>
<td>(0.1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Costs Paid</td>
<td>30.8</td>
<td>7.8</td>
<td>0.1</td>
<td>(0.0)</td>
</tr>
<tr>
<td><strong>Surplus (Shortfall)</strong></td>
<td><strong>29.0</strong></td>
<td><strong>7.7</strong></td>
<td><strong>0.1</strong></td>
<td><strong>(0.0)</strong></td>
</tr>
<tr>
<td>Rider C Collection (Refund)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Surplus (Shortfall)</strong></td>
<td><strong>29.0</strong></td>
<td><strong>7.7</strong></td>
<td><strong>0.1</strong></td>
<td><strong>(0.0)</strong></td>
</tr>
</tbody>
</table>

Includes surplus attributable to one-time losses adjustment (page 56)

Losses Adjustment

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>13.0</td>
</tr>
<tr>
<td>2000</td>
<td>0.1</td>
</tr>
</tbody>
</table>

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### Deferral Reporting System

Page 6

- **Cost Data**
  - Great Plains Accounting System

- **Revenue Data**
  - Transmission Settlement System

- **Deferral Database**
  - (stores accounting and production data)

- **Deferral Reporting System**
  - (generates reports)
Deferral Reporting Controls

- **Input controls (A)**
  - Data transferred into database reconciles to source data
  - All accounting values are assigned to production months (value rejected if production month not entered)

- **Process controls (B)**
  - Detailed report totals reconcile to summary reports
  - Annual deferral account balances (revenues and costs) reconcile to audited financial statements
  - Customer revenues and loss volumes reconcile to billing data
  - Inter-year adjustments for production month reporting net to zero
  - Calculations embedded in reporting system have been manually tested and verified in detail

Cost Variances

- All costs recorded in revenue requirement categories in General Tariff Application approved forecast
- All costs assigned to production months in accounting system
  - AESO “Own Costs” assigned to months in which they occur
- Variances determined as differences between approved forecast and actual costs by revenue requirement category
- Deferral account application is proper venue to test the AESO’s cost prudence for 2004 and 2005
Cost Variances (cont’d)
Pages 19-28 for 2005

- Variance explanations provided for any variance greater than ±$3.0 million
  - Or greater than ±10% of forecast and greater than ±$0.3 million
  - Thresholds reduced by half for 2003 second reconciliation
- Detailed questions on variance analysis should be addressed through information request process

Revenue Variances
Pages 28-29 for 2005

- All revenue recorded by rate and rate component
- All “base rate” revenues assigned to production months in billing system
- Variances determined as differences between forecast “base rate” revenue and actual revenue by rate and rate component
Deferral Account Balance

- Deferral account balance is actual costs less actual revenue
  - Equivalent to net of cost variances less revenue variances as long as forecast costs equaled forecasts revenues
- Rider C collected or refunded amounts to maintain deferral account balances at reasonable levels
- Deferral account balance allocated to customers before Rider C collections or refunds included, effectively “unwinding” Rider C

Deferral Account Reconciliations for 2004 and 2003

- Similar information provided for 2004
- Similar information provided for 2003, but only considered variances arising subsequent to first reconciliation as refiled in December 2004
  - Threshold for variance explanations reduced by half
- One-time losses adjustment (discussed on page 56) added $11.1 million to surplus for 2003
Deferral Account Adjustments for 1999 to 2002

- Only considered adjustments to revenues and costs for 1999-2002, not full re-reconciliation
- Adjustments for 1999 and 2000 were very small, and simply added to adjustments for 2001 for reconciliation and allocation purposes
- No specific threshold for variance explanations established

Allocation to Customers

- Deferral account balances allocated to customers by rate and rate category
- For wires, ancillary services, other industry, and general and administration costs, allocation based on revenue
- For losses, allocation based on volumes times pool price
- Detailed allocation provided in 593 pages of appendices
- Customers and generators assigned random numbers in each year to protect confidentiality
  - Number codes have been provided to each customer
- Review of appendices at end of slides
Allocation to Customers (cont’d)

Pages 65-66 and Appendices

- Rider C amounts applied after deferral account balances allocated to customers
- Rider C amounts charged or refunded to customers over the period are applied on an individual customer basis to determine the net amount to be refunded to or collected from the customer
- Where a System Access Service Agreement is assigned (through Assignment and Novation), the deferral account allocation is to the account of the assignee
  - Effective in 2002 and later years
  - Assignees will be determined as of the date of settlement after approval by the AUC

DTS Customer Results

[Chart showing DTS Customer Deferral Account results]
### DTS Customer Results (cont’d)

<table>
<thead>
<tr>
<th>Description</th>
<th>Number of DTS Customers</th>
<th>% of Total DTS Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunds of $0.0 to $0.06 million</td>
<td>8</td>
<td>18%</td>
</tr>
<tr>
<td>Charges of $0.0 to $0.5 million</td>
<td>35</td>
<td>78%</td>
</tr>
<tr>
<td>Charge of $0.7 million</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>Charge of $1.1 million</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100%</td>
</tr>
</tbody>
</table>

### STS Customers Results

![STS Customers](image)

*Total STS Customer Deferral Account*
**STS Customer Results (cont’d)**

<table>
<thead>
<tr>
<th>Number of STS Customers</th>
<th>% of Total STS Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges of $0.0 to $0.5 million</td>
<td>7</td>
</tr>
<tr>
<td>Refunds of $0.0 to $1.0 million</td>
<td>30</td>
</tr>
<tr>
<td>Refunds of $1.0 to $4.4 million</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>42</td>
</tr>
</tbody>
</table>

**Application Review Process**

- Technical meeting on Friday, February 8, 2008
- Information requests to AESO by Friday, February 22, 2008
- IR responses from AESO by Friday, March 14, 2008
- No party has requested an oral hearing (to date)
- Argument potentially in early April 2008
- Reply argument potentially in late April 2008
- Decision potentially in late July 2008
- Refunds and collections are typically made through one-time payments or charges, potentially in August
  - AESO offers three-month payment option to customers on request
Future Deferral Account Applications Pages 17-18

- **2006 deferral account application** proposed to be filed after IRs are answered, potentially in May 2008
  - Based on same data cut-off date of July 31, 2007
- Overall deferral account balance for 2006 is $5.9 million shortfall as of July 31, 2007

- **2007 deferral account application** proposed to be filed after 2004-2005 decision, potentially in October 2008
  - Based on data cut-off date of July 31, 2008
  - Expect to include re-reconciliations for 2003 to 2006
  - Adjustments for 1999-2002 (if any) allocated using frozen allocators

- Overall deferral account balance for 2007 is $47.2 million surplus as of December 31, 2007

Discussion and Questions

- Review of detailed information in Appendices
For More Information

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  Director, Tariff Applications  
  Phone (403) 539-2465  
  E-mail john.martin@aeso.ca  

- Carol Moline  
  Director, Accounting & Treasury  
  Phone (403) 539-2504  
  E-mail carol.moline@aeso.ca  

- Application on AESO web site at www.aeso.ca  
  Tariff → Current Applications → 2004-2005 Deferral Account Reconciliation