



March 4, 2008

*Distributed via e-mail*

To Registered Participants and Interested Parties  
AESO 2004-2005 Deferral Account Reconciliation Application

Dear Participant:

Re: **Request for Comments on Potential Changes to AESO 2004-2005 Deferral Account Reconciliation Process (Application 1548908)**

On December 1, 2007, the AESO filed with the Alberta Energy and Utilities Board (now the Alberta Utilities Commission or AUC) its 2004-2005 Deferral Account Reconciliation Application.

Since that application was filed, the deferral account surplus has increased due in part to additional amounts refunded to the AESO at the end of 2007. As a result, the AESO now considers that the process proposed in its 2004-2005 application (as summarized in Figure 1 below) would not be the best mechanism to provide a prompt return of the full surplus to customers. The AESO has therefore examined alternatives which could allow a more prompt and accurate settlement of the outstanding deferral account balances.

These alternative approaches are summarized in the balance of this letter, and the AESO seeks comments from participants before implementing any of the options discussed. Please submit your comments using the attached comment form to [john.martin@aeso.ca](mailto:john.martin@aeso.ca), by **Wednesday, March 12, 2008**.

## **Background**

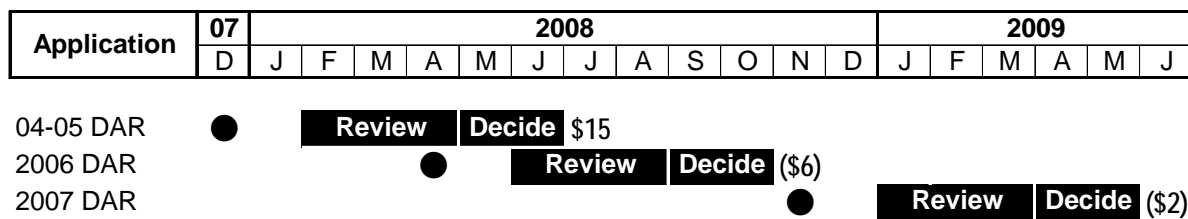
In section 2 of its 2004-2005 deferral account reconciliation application, the AESO stated the following on pages 17-18:

...the AESO plans to file the reconciliation for 2006 soon after filing this application, and will base the 2006 application on the same data cut-off date of July 31, 2007.... At this time, the AESO proposes to file the 2006 deferral account reconciliation application after information requests have been answered on this 2004-2005 application, in order to enable incorporation, where appropriate, of matters raised during the information request process.

The AESO would then expect to file the 2007 and subsequent annual deferral account reconciliation applications in [the] fall of the year following the deferral account year....

At the time of filing, the AESO had recorded a net shortfall of about (\$6) million in its 2006 deferral account, and had forecast a further net shortfall of about (\$2) million for its 2007 deferral account reconciliation application. The process outlined in the 2004-2005 application is summarized graphically in Figure 1, with the \$15 million surplus in the 2004-2005 application refunded to customers in mid-2008, the (\$6) million shortfall for 2006 recovered in late 2008, and the (\$2) million shortfall in the 2007 application recovered in mid-2009:

*Figure 1: Process Proposed in 2004-2005 Deferral Account Reconciliation Application*



As discussed at the deferral account reconciliation application technical meeting held on February 8, 2008, the deferral account surplus has increased due to additional amounts refunded to the AESO at the end of 2007, as well as other cost and revenue variances. Schedule TM-6 attached to the AESO’s February 21 response to Technical Meeting Question 6 summarized a \$56.3 million deferral account surplus at the end of 2007. Even after the refund of the \$15.0 million surplus in the 2004-2005 application, a \$41.3 million surplus remains to be addressed in future deferral account reconciliation applications. Of note is that \$11.4 million of this \$41.3 million surplus relates to years prior to 2006.

At the technical meeting and in some of the information requests received by the AESO in the 2004-2005 application proceeding, participants expressed concern about the size of the current deferral account surplus and about a process to return that surplus to customers as promptly as possible. The AESO considers that the process proposed in its 2004-2005 application, as summarized in Figure 1, would not provide a prompt return of the full surplus to customers. The AESO has therefore examined other options which could allow a prompt and accurate settlement of the outstanding deferral account balances, and is of the view that the best approach is that identified as Option 4 below.

The options are summarized in the balance of this letter. As noted above, the AESO is interested in participants’ views on this matter before proposing to implement any of the options discussed.

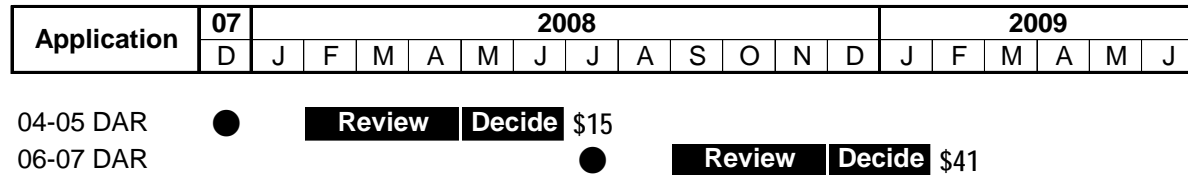
**Option 1: Rider B or C Distribution**

The first option considered by the AESO was distribution of the surplus funds to customers through Rider B or C. Rider B allows the refund of a surplus through a percentage decrease applied to charges under Rates DTS and FDS in the current billing period. Rider C allows an additional \$/MWh credit to be applied to each component of Rates DTS and FDS in the following calendar quarter or such longer period as determined by the AESO. In each case, the



currently implemented. The AESO would need to expend significant time and resources rewriting and testing the program to exclude the amounts in the 2004-2005 application which had not yet been settled, and this additional work would likely delay the application for an additional two or three months. Financial settlement with customers would therefore be expected to occur in early 2009, as shown in Figure 3, at about the same time as with the combined application under Option 2.

*Figure 3: Expected Process With a Concurrent 2006-2007 Application (Option 3)*



Like Option 2, the AESO considers that a concurrent 2006-2007 application would be accurate but not prompt, and would require significantly more time and resources to complete.

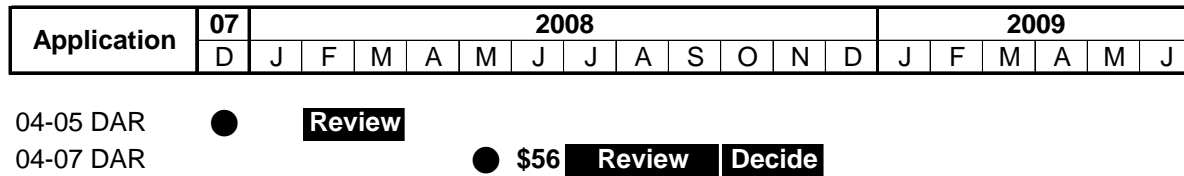
**Option 4: Extended 2004-2007 Application**

The fourth option considered by the AESO is the suspension of the current application and its replacement with an extended 2004-2007 application. The current application would be refiled to incorporate the full \$56.3 million deferral account surplus or such other amount as had accrued at the application’s data cut-off date. The application would accordingly include two additional sections on financial results and deferral account balances for 2007 and for 2006, as well as additional information for each of the other years affected by the additional transactions being included. However, the methodology employed in the deferral account reconciliation and allocation would not change, and the nature of the information included in the deferral account application would remain the same. The extended application would result in accurate reconciliation and allocation of deferral account amounts to customers.

At the time of filing the extended application, the AESO would also request approval for immediate financial settlement of the deferral account amounts with customers. The AESO considers that the technical meeting and information requests on its 2004-2005 deferral account reconciliation application have not revealed concerns with the methodology or allocation included in that application. As well, as explained in the February 21 response to Technical Meeting Question 5, the AESO considers that preparing a deferral account reconciliation application based on initial settlement data would have minimal impact on the accuracy of deferral account allocations to customers, compared to waiting until after interim or final settlement data was available.

Under an extended application with immediate settlement, financial settlement of all 2004-2007 deferral account amounts with customers would be expected to occur in mid-2008, as shown in Figure 4. The extended application would provide accuracy while the immediate settlement would refund the deferral account surplus to customers quickly.

Figure 4: Expected Process With an Extended 2004-2007 Application and Immediate Settlement (Option 4)



The AESO suggests that the process for an extended 2004-2007 application with immediate settlement would include the following elements.

- (a) The AESO would file responses to information requests as currently scheduled in its 2004-2005 application, as those information requests continue to remain relevant to an extended application.
- (b) At the time of filing of information responses, the AESO would request a suspension of the current 2004-2005 application process.
- (c) The AESO would prepare and file a replacement extended application which would include first reconciliations of deferral accounts for 2007, 2006, 2005, and 2004; a second reconciliation of deferral accounts for 2003; and reconciliations of adjustments for 2002, 2001, 2000, and 1999. The AESO expects it would be able to file an extended application in late May 2008.
- (d) The extended application would be based on a data cut-off date of March 31, 2008, which would include the refund amounts received at the end of 2007 as well as some of the adjustments approved in AUC Decision 2008-014 on the AESO’s Ancillary Services Article 11 Negotiated Settlement, issued on February 12, 2008.
- (e) At the time of filing the extended application, the AESO would request approval to immediately settle deferral account amounts with customers in accordance with the refunding and collection process described in section 8 of the 2004-2005 application.
- (f) In conjunction with filing the extended application, the AESO would make available settlement point detail for deferral account amounts allocated to customers, similar to the detail provided since the filing of the 2004-2005 application.
- (g) Amounts refunded or collected through immediate settlement would be subject to approval through a regulatory process for the extended application. The AESO anticipates that any changes to those amounts would be small, and suggests that such changes could be addressed in the AESO’s 2008 deferral account reconciliation application, rather than through a refiling of the 2004-2007 application.

The AESO considers the extended application and immediate settlement to be an appropriate means of addressing the current deferral account surplus. In the longer term, the AESO recognizes the need to develop an approach that more effectively handles large deferral account transactions on an on-going basis. The AESO proposes to include such considerations in its 2008

deferral account application in 2009. If the approach included revisions to Rider B or C, such revisions would be proposed as part of the AESO's next General Tariff Application, or in a separate rider amendment application if appropriate.

### **Participant and Stakeholder Consultation**

The AESO notes that options beyond the four discussed above also exist, including a request for the AUC to allow the immediate settlement of the current application. However, we consider that an extended application with immediate settlement would result in accurate and prompt refunding of the deferral account surplus to customers, while being practical and efficient from the perspective of the AESO, customers, and the AUC.

The AESO therefore seeks participant and stakeholder views on this matter through a brief consultation process. If general support is received for filing an extended application with immediate settlement, the AESO will request suspension of the current 2004-2005 application process at the time it files responses to information requests on March 14, 2008.

Please provide comments by returning the attached comment form to [john.martin@aeso.ca](mailto:john.martin@aeso.ca) by Wednesday, March 12, 2008. The AESO will post all comments received on its web site, and will consider the comments in determining its future action with respect to its deferral account reconciliation applications.

The AESO's 2004-2005 Deferral Account Reconciliation Application and related information is posted on the AESO's web site at [www.aeso.ca](http://www.aeso.ca), and may be found by following the path Tariff ► Current Applications ► 2004-2005 Deferral Account Reconciliation.

If you have any questions on the AESO's deferral account reconciliation application, please contact me at (403) 539-2465 or by e-mail to [john.martin@aeso.ca](mailto:john.martin@aeso.ca).

Yours truly,

*[original signed by]*

John Martin  
Director, Tariff Applications

Attachment

cc: Jamie Cameron, Alberta Utilities Commission  
Heidi Kirrmaier, Vice-President, Regulatory, AESO  
Carol Moline, Director, Accounting & Treasury, AESO