Recognition of Interest in 2004-2007 Deferral Account Reconciliation Application

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Agenda

- Background
- Principles for recognition of interest
- Example calculation
- Additional information
- Next steps
- Future deferral account reconciliation applications
- Discussion and questions

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Meeting Objectives

- Understanding of principles
- Understanding of how interest amounts are proposed to be calculated and distributed to customers
- Expectations for recognition of interest in application
- Respond to questions about principles and calculations

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Background

- At February 8, 2008, technical meeting on AESO's 2004-2005 deferral account reconciliation application, participants asked about recognition of interest on large deferral account adjustments
- AESO's March 18 information responses included information on interest effects of several large adjustments, in response to questions from TransCanada
- AESO has further considered the matter and now proposes to recognize interest in the extended 2004-2007 deferral account reconciliation application
- AESO is consulting with stakeholders to ensure concerns with recognition of interest are addressed in application

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Unusual Circumstances of Extended Application

- Application covers an extended period from 1999 to 2007
  - First reconciliations for 2007, 2006, 2005, and 2004
  - Second reconciliation for 2003
  - Reconciliation of adjustments for 2002, 2001, 2000, and 1999
- Application has been delayed
  - Consultation in late 2004 and throughout 2005
  - Complex and resource-intensive activities to prepare multi-year retrospective application
  - Development of automated deferral account reconciliation system
- Application includes large number of one-time adjustments

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Development of Principles

- Interest will not ordinarily be recognized in future deferral account reconciliation applications filed on an annual basis
- AESO relied on Alberta Utilities Commission (AUC) Rule 023 respecting payment of interest
- Pending AUC approval to suspend 2004-2005 application and file extended 2004-2007 application

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"Normal" Deferral Account Treatment Would Not Attract Interest

- If AESO had utilized Rider C to consistently maintain its forecast deferral account balances at or near zero continuously throughout the deferral account period, no interest should accrue
- Maintaining forecast deferral account balances near zero through Rider C would have allocated deferral account balances to customers in accordance with the basis upon which Rider C was developed
- No interest adjustment would be required

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Interest Calculated Based on Monthly Deferral Account Balances

- Interest would be calculated based on deferral account balances which are not maintained near zero
  - Deferral account balances near zero would not attract interest
- Interest calculated on deferral account balances from January 2004 to December 2006
- Interest charges would accrue on deferral account shortfalls, and interest credits would accrue on deferral account surpluses
- Interest amounts would accrue consistent with the deferral account balances by rate and rate component as reported monthly on AESO web site

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Interest Accrues Only After Transaction Is Recorded by AESO

- No interest will accrue on refunds or charges to the AESO prior to those transactions being recorded by the AESO
- Interest on amounts before they are charged or refunded to the AESO should be addressed at the time the charge or refund is determined
  - Would be based on normal practice for assessing interest on such amounts based on the nature of the transaction
  - For example, if a transaction results from AUC decision, interest on transaction prior to it being charged or refunded to the AESO would be determined as part of AUC decision

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Interest Calculated Using Bank Rate plus 1½%

- Interest will be calculated on a monthly basis
- Rate will be equal to the Bank of Canada's Bank Rate plus 1½%
- Consistent with section 3(2)(e) of AUC Rule 023 respecting payment of interest

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No Interest on Transactions Recorded in 2007 or 2008

- Filing a reconciliation of 2007 deferral accounts in May of 2008 represents normal timing and should not attract interest
- Consistent with section 3(2)(b) of AUC Rule 023 which suggests no interest would accrue unless regulatory lag occurs
  - Normal application process does not constitute regulatory lag
- Any deferral account balance which existed at the end of December 2006 would continue to accrue interest

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Interest Calculated to June 2008

- AESO will apply to settle amounts with customers immediately upon filing the extended 2004-2007 application in May 2008
- Pending AUC approval, financial settlement of the deferral account balances with customers will occur at the end of June 2008
- Interest on deferral account balances will be calculated up to the end of June 2008

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Interest Allocated in Same Manner as Deferral Account Balances

- Interest amounts will be charged or refunded to customers by production month and by rate and rate component
- Interest allocation will be consistent with the manner in which the deferral account balances were charged or refunded to customers
- Interest amount allocated to production months from January 2002 to December 2006

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Calculation of Adjustment to Interest Expense: Step 1

July 2005 — Operating Reserves

OR DA Balance	$(10.0)	million	shortfall
Bank Rate + 1½%	× 4.25%	for 31 days	
Interest Adjustment	$(0.036)	million	reduction in interest expense in July 2005
Allocators for Interest Expense	58% 42%	DTS STS	same allocation as interconnection charge
Allocated Interest Expense	$(0.021) $(0.015)	million million	DTS in July 2005 STS in July 2005

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Allocation of Offsetting Amount to Production Year: Step 2

Production Year	OR DA Balance — July 2005 $ million	OR DA Balance — July 2005 %	Interest $ million
2005	(9.4)	94%	(0.034)
2004	(0.6)	6%	(0.002)
2003	0.0	–	–
2002	0.0	–	–
Total	(10.0)	100%	(0.036)

Summing of Monthly Amounts by Production Year: Step 2

	July 2005			All 2005
Production Year	OR DA Balance — July 2005 $ million	OR DA Balance — July 2005 %	Interest $ million	Interest $ million
2005	(9.4)	94%	(0.034)	(0.314)
2004	(0.6)	6%	(0.002)	(0.138)
2003	0.0	–	–	–
2002	0.0	–	–	–
Total	(10.0)	100%	(0.036)	(0.452)

Distribution of Offsetting Amount to Production Months: Step 3

July 2005 — Operating Reserves Deferral Account Balance ($ million)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr
2005	(4.7)	(12.3)	(17.5)	(14.7)	(10.9)	(8.1)	(9.4)	(5.6)	(3.7)	(4.7)	(1.2)	3.9	(88.9)
2004	(12.2)	(9.2)	(6.0)	(4.1)	(2.2)	(0.4)	(0.6)	(0.7)	(0.9)	(0.7)	(0.9)	(0.9)	(38.8)
2003	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.4
2002	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	(16.9)	(21.5)	(23.5)	(18.8)	(13.1)	(8.5)	(10.0)	(6.2)	(4.5)	(5.4)	(2.0)	3.1	(127.3)

Deferral account balances are used for allocating offsetting amounts to production months in Step 4

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Distribution of Annual Amount to Production Months: Step 4

2005 OR Production Year Interest = $0.314 million

Production Month	Interest Allocation to Production Month (based on Month End Deferral Balances)	Allocation of 2005 Production Year Interest
Jan	(4.7) / (88.9) = 5.2%	$ 0.016
Feb	(12.3) / (88.9) = 13.8%	0.043
Mar	(17.5) / (88.9) = 19.7%	0.062
Apr	(14.7) / (88.9) = 16.5%	0.052
May	(10.9) / (88.9) = 12.2%	0.038
June	(8.1) / (88.9) = 9.1%	0.029
Jul	(9.4) / (88.9) = 10.6%	0.033
Aug	(5.6) / (88.9) = 6.3%	0.020
Sept	(3.7) / (88.9) = 4.1%	0.013
Oct	(4.7) / (88.9) = 5.3%	0.017
Nov	(1.2) / (88.9) = 1.3%	0.004
Dec	3.9 / (88.9) = (4.3)%	(0.014)
Total	(88.9) / (88.9) = 100%	$ 0.314

For 2005 operating reserves, offsetting amounts will then be allocated 50% to DTS and 50% to STS in accordance with operating reserve cost allocation in effect in 2005

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Calculation and Distribution of Interest Adjustments

- Interest adjustments are calculated by rate and rate component (interconnection charge, losses, operating reserves, voltage control, and other system support services charge)
- Interest adjustments are calculated by month
- Total of about 360 calculations per production month

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Summary of Distribution of Interest Amounts

Production Year	Refund (Charge) ($ millions)		
	STS	DTS	Net
2002	$2.3	$0.0	$2.3
2003	2.7	(1.0)	1.7
2004	(1.5)	1.4	(0.1)
2005	(0.6)	(0.6)	(1.2)
2006	0.0	(2.0)	(2.0)
2007	0.0	(0.5)	(0.5)
2008	0.0	(0.2)	(0.2)
Total	**$2.9**	**($2.9)**	**$0.0**

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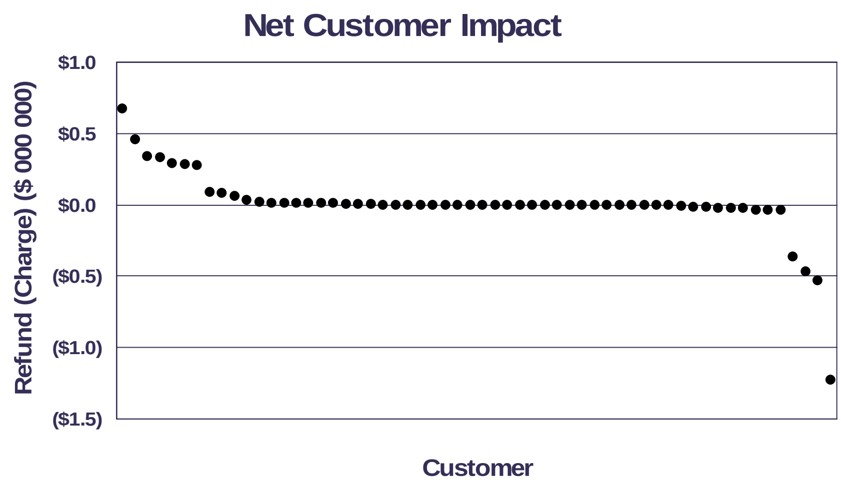
Preliminary Customer Impact



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Largest Preliminary Impacts

- Impacts are estimated to be:
  - $(1.2) million estimate for largest charge to DFO (FortisAlberta)
  - $(0.04) million estimate for largest charge to direct-connect DTS customer
  - $0.7 million estimate for largest refund to STS customer

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Additional Information

- Extended 2004-2007 application is currently planned to use a data cut-off date of February 29, 2008
  - No material transactions after that date (so far)
- Pre-2004 monthly deferral balances were first reported in May 2005
  - Included all 2003 and earlier deferral account balances as one “pre-2004” amount
- Exception was treatment of $24.2 million losses adjustment
  - December 2004 accrual amount was removed from losses deferral balance included in month-end deferral reports until May 2005 when adjustment was billed
  - In May 2005 adjustment was reported separately as $13.0 million in 2002 and $11.2 million in 2003

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Next Steps

- Awaiting approval from AUC to suspend original 2004-2005 deferral account reconciliation application
- Written comments on recognition of interest requested by Friday, April 18, 2008
- AESO will post comments and responses before Thursday, May 1, 2008
- AESO expects to file extended 2004-2007 deferral account reconciliation application before end of May 2008
- AESO plans to distribute refunds and charges to customers before end of June 2008 (subject to AUC approval)

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Future Deferral Account Reconciliation Applications

- 2008 deferral account application proposed to be filed in second quarter of 2009
  - Based on data cut-off date of January 31, 2008
  - Considering recovering 2008 year-end balance through reconciliation application and not as part of 2009 Q1 Rider C
  - Propose to again request immediate disbursement to customers
- 2009 and subsequent deferral account applications will be filed on similar schedule
- AESO considering consultation on moving to a prospective rider in mid-2010

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Discussion and Questions

- Written comments requested by Friday, April 18, 2008

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  Tariff ▶ Current Applications ▶ 2004-2007 Deferral Account Reconciliation

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