

**Recognition of Interest in AESO 2004-2007 Deferral Account Reconciliation Response Matrix
Stakeholder Comments and AESO Responses — May 8, 2008**

Stakeholder Comment	AESO Response
(a) “Normal” deferral account treatment would not attract interest.	
ADC — Support	
ENMAX — Support	
EPCOR Utilities — Support Agreed. Such an approach would be consistent with AUC Rule 023 respecting the payment of interest.	
FortisAlberta — Oppose / Indifferent FortisAlberta has difficulty supporting a principle that “normal” deferral account treatment would not attract interest, as it implies that “unusual” deferral account events should necessarily attract interest. It is also unclear how the AESO would differentiate between “normal” and “unusual” deferral balances and FortisAlberta questions the AESO’s basis for suggesting this is an “unusual” case. While FortisAlberta, as a distribution wire owner, is financially indifferent to the recognition or treatment of interest in the AESO’s upcoming application (i.e. Any interest attributed to FortisAlberta PODs due to the AESO deferral reconciliation would flow through dollar-for-dollar to the respective FortisAlberta’s Rate 65 transmission connected customers or be recorded in its FortisAlberta’s AESO Charges Deferral Account for its distribution connected customers), FortisAlberta has a concern on behalf of its load customers as it appears that approximately \$1.2 million could be retroactively re-allocated to these load customers to fund interest compensation to AESO STS generation customers. If the AESO proceeds with this approach to recognize interest, FortisAlberta believes that any such proposal would require a thorough review by the AUC and load customer representatives to ensure that public interest is being maintained. This is particularly true in light of the timing and circumstances upon which these principles and the recognition of interest are being proposed.	<p>FortisAlberta correctly assumes that the AESO is proposing that interest would not be recognized in “normal” deferral account treatment but would be recognized in “unusual” circumstances such as the current application. As discussed in its letter, the AESO proposes that “normal” refers to deferral account balances that are forecast to be near zero through use of Rider C, and that are reconciled in an annual application filed relatively soon after year-end. Conversely, “unusual” applies when deferral account balances have remained significantly above or below zero during the deferral account year, and are not reconciled for an extended time after year-end.</p> <p>Interest compensation is not being allocated to load customers. Rather, over the past several years load customers have funded lower interest expense than the AESO would otherwise have incurred in the absence of STS deferral account surpluses. The proposed treatment appropriately redistributes interest expense such that it accrues to those customers which gave rise to the deferral account surpluses or shortfalls.</p> <p>The AESO agrees that recognition of interest requires a thorough review as part of this deferral account proceeding.</p>
PICA — Support	

Stakeholder Comment	AESO Response
<p>TransAlta — Support Would expect the deferral amounts would normally be small and not over an extended time frame and therefore interest not warranted.</p>	
<p>TransCanada — Support If Rider “C” is utilized effectively and the deferral account is filed early the following year for settlement by the end of June each year then the dollar amounts should be small enough and the time periods short enough that interest would not be a material issue.</p>	
<p>UCA — Support As the AESO manages deferral account balances through riders and only extraordinary items should attract interest, and normal course of business items should not attract Interest.</p>	<p>As noted in the AESO’s April 8 letter, the AESO expects that recognition of interest in the extended 2004-2007 application is a one-time, extraordinary approach.</p>
<p>(b) Interest will be calculated based on monthly deferral account balances.</p>	
<p>ADC — Support</p>	
<p>ENMAX — Support</p>	
<p>EPCOR Utilities — Support This is a reasonable proposal by the AESO.</p>	
<p>FortisAlberta — Indifferent Please see response to proposed principle (a) above which explains why FortisAlberta, as a distribution wire owner, would be indifferent to recognition of interest. If interest is recognized, FortisAlberta would be supportive of calculating interest based on monthly balances as this approach is reasonable and consistent with the calculation methodology applied with respect to AUC Rule 023.</p>	
<p>PICA — Oppose Interest should only be applicable if there is a policy on interest among customer classes. There is no policy respecting interest between customer classes at present. Therefore interest should not be applied retroactively among customer classes.</p>	<p>The AESO suggests that AUC Rule 023 provides guidelines which suggest that interest be recognized in circumstances involving an extended period before settlement and amounts exceeding materiality thresholds. Recognition of interest in the AESO’s deferral account reconciliation application aligns with those guidelines.</p>

Stakeholder Comment	AESO Response
<p>TransAlta — Support</p> <p>Conceptually the payment of interest is appropriate when the deferral account amount is large and extends over a long period. The benefits and penalties to each party is too large to ignore. Although supportive of the AESO position of making some interest payments, TransAlta believes their calculation is conceptually not correct. Interest should be paid by those who have received a benefit over the time period and should be paid to those who paid too much over the time period. TransAlta is prepared to accept the calculation of interest done by the AESO as a means to recognize some payment of interest.</p>	<p>The AESO considers that its proposed approach aligns with TransAlta suggestions. As explained in Information Responses TCE.AESO-002 (e), -003 (d), and -009 (c), deferral account surpluses have reduced the AESO's interest expense to the benefit of customers paying interconnection charges (STS and DTS customers up to 2005, and only DTS customers since 2006). The parties "who paid too much" are those to whom the deferral account surpluses are allocated in the deferral account reconciliation (primarily STS customers). Interest is being redistributed accordingly.</p>
<p>TransCanada — Support</p> <p>In principle, interest calculations should begin when one party has financially suffered as a result of another party benefiting from an underpayment of their obligations. TransCanada holds that the correct interest adjustment calculation should take into account the dates and amounts when some customers were undercharged and others overcharged and determine the interest (i.e. their cost of capital) that should be charged or credited to these amounts. However, recognizing this is difficult to determine accurately, may vary between customers and will involve some judgment, TransCanada is willing to accept the AESO proposal to use AESO deferral account balances. For this application, TransCanada will support interest calculated on the monthly deferral account balances or on the average of the balances of the month end amounts (as proposed in the stakeholder meeting).</p>	
<p>UCA — Support</p> <p>To be clear the UCA supports this position in this instance only as it is an extra ordinary event. In principle, the UCA would not support interest as indicated in (a) above.</p>	
(c) Interest will accrue only after a transaction has been recorded by the AESO.	
ADC — Support	
ENMAX — Support	
<p>EPCOR Utilities — Support</p> <p>This is a reasonable proposal by the AESO.</p>	
<p>FortisAlberta — Indifferent</p> <p>Please see response to proposed principle (a) above.</p>	
<p>PICA</p> <p>See (b) above</p>	
TransAlta — Support	

Stakeholder Comment	AESO Response
<p>TransCanada — Support TransCanada provides conditional support to this position. TransCanada is of the view that many customers benefited and others were harmed by the treatment of the deferral account adjustments prior to, as well as after, the recording of transactions by the AESO. TransCanada would prefer to see those amounts calculated and adjusted for interest. However, in the spirit of resolving this application and dispersing these large amounts that have been held for considerable time, TransCanada is willing to accept the AESO's proposal of only applying interest after the transaction is recorded. Parties prepared to pursue interest prior to the amounts being recorded by the AESO should not be precluded from pursuing these avenues of relief as a result of decisions made in this application.</p>	<p>The AESO appreciates TransCanada's conditional support, but considers that the AESO cannot be accountable for interest on amounts prior to those amounts being recorded by the AESO in the context of a deferral account reconciliation. As explained in the AESO's April 8 letter, interest on an amount prior to it being recorded by the AESO should be addressed at the time the transaction occurs, for example, in the AUC decision from which the amount results or in accordance with terms of settlement for other amounts.</p>
<p>UCA — Support Only transactions within the control of the AESO should attract interest. In principle, the UCA would not support interest as indicated in (a) above.</p>	
<p>(d) Interest will be calculated using the Bank of Canada's Bank Rate plus 1½%.</p>	
<p>ADC — Support</p>	
<p>ENMAX — Support</p>	
<p>EPCOR Utilities — Support Such an approach would be consistent with AUC Rule 023 respecting the payment of interest.</p>	
<p>FortisAlberta — Indifferent Please see response to proposed principle (a) above which explains why FortisAlberta, as a distribution wire owner, would be indifferent to recognition of interest. If interest is recognized, FortisAlberta would be supportive of calculating interest based on Bank of Canada's Bank Rate plus 1½% as this approach is reasonable and consistent with the calculation methodology applied with respect to AUC Rule 023.</p>	
<p>PICA See (b) above</p>	
<p>TransAlta — Support</p>	

Stakeholder Comment	AESO Response
<p>TransCanada — Support This proposed rate does not likely reflect the cost of capital of the parties who were harmed or benefited from over or underpayments. The cost of capital of larger industrial customers and suppliers is typically higher than this amount. However, to facilitate the processing of the current application, TransCanada supports the use of the AESO's cost of debt savings arising from the deferral account surplus balances. The interest calculated using the Bank of Canada's Bank Rate plus 1½% is a reasonable proxy to the AESO's cost of debt.</p>	<p>The AESO notes it is not using the AESO's cost of debt in the calculations to recognize interest. The AESO has adopted the interest rate specified in AUC Rule 023, although not as a proxy for its own cost of debt.</p>
<p>UCA — Support As this is consistent with AUC rules, the UCA supports the rate. In principle, the UCA would not support interest as indicated in (a) above.</p>	
<p>(e) No interest will accrue in respect of transactions recorded in 2007 or 2008.</p>	
<p>ADC — Support</p>	
<p>ENMAX — Support</p>	
<p>EPCOR Utilities — Support This is a reasonable proposal by the AESO.</p>	
<p>FortisAlberta — Indifferent Please see response to proposed principle (a) above.</p>	
<p>PICA — Support</p>	
<p>TransAlta — Support</p>	
<p>TransCanada — Support The condition on this support is that 2007 and 2008 Deferral account balances are adjusted on a timely basis. If, for example, the deferral account adjustment proceeding for 2008 was materially delayed, TransCanada suggests the payment of interest would need to be revisited. For example, if the TAA PFAM amounts are not included in the current application, there will be justification to pay interest on these amounts if their disbursement is materially delayed.</p>	<p>As stated in Information Response TCE.AESO-007, "the AESO intends to file future deferral account application[s] on an annual basis in the second quarter following the year to which the deferral account relates." If such an application is delayed, recognition of interest would be considered in the context of the length of the delay, whether deferral account balances have remained significantly above or below zero during the deferral account year, the materiality of the deferral account balances, and potentially other factors.</p>
<p>UCA — Support See (a) above.</p>	

Stakeholder Comment	AESO Response
(f) Interest will be calculated to the expected date of settlement with customers in June 2008.	
ADC — Support	
ENMAX — Support	
EPCOR Utilities — Support This is a reasonable proposal. However, if the actual date of settlement is later than June 2008, interest calculations should be modified accordingly.	After further consideration, the AESO expects settlement will probably occur in July 2008 and so has extended the interest calculation by one month.
FortisAlberta — Indifferent Please see response to proposed principle (a) above.	
PICA See (b) above	
TransAlta — Support	
TransCanada — Support TransCanada would support the AESO taking the initiative to settle the Deferral Account at the end of June by settling with customers at that time and informing the AUC rather than requesting the AUC's permission to do this. TransCanada would also support the AESO calculating the interest until July 2008 if it appears that is the realistic date when the deferral accounts can be adjusted.	The AUC indicated in its letter of April 16, 2008, "Prior to ordering immediate financial settlement arising from a revised application, however, the Commission must be satisfied that the amounts are accurate and that such an order is in the public interest." The AESO therefore intends to request AUC approval for early "interim" settlement of the deferral account balances, and has accordingly extended the interest calculation to July 2008.
UCA — Support In principle, the UCA would not support interest as indicated in (a) above.	
(g) Interest will be allocated in the same manner as the deferral account balances on which the interest is calculated.	
ADC — Support	
ENMAX — Support	
EPCOR Utilities — Support This is a reasonable proposal by the AESO.	
FortisAlberta — Indifferent Please see response to proposed principle (a) above.	
PICA See (b) above	
TransAlta — Support	

Stakeholder Comment	AESO Response
<p>TransCanada — Support If the Commission approves the AESO proposal to use deferral account balances as the basis of the interest calculations, it follows that interest should be allocated in the same manner.</p>	
<p>UCA — Support In principle, the UCA would not support interest as indicated in (a) above.</p>	
Additional Comments	
<p>ADC The ADC supports the notion of interest to clear up these deferral account balances in the way the AESO has proposed. The deferral account goes back a number of years and it seems fair that the impacted parties are compensated accordingly. The expectation is that this situation won't arise again in the future.</p>	
<p>ASBG/PGA Further to the AESO Consultation Meeting of April 16, 2008 on the issue of Recognition of Interest for the referenced Application the Alberta Sugar Beet Growers and the Potato Growers of Alberta (ASBG/PGA) hereby submit written comments as requested by the AESO at the meeting. The AESO has changed the initial 2004 – 2005 Deferral Account Application to cover the extended period of 2004 – 2007 to accommodate significant refunds to the AESO in 2007 and provide a process to refund amounts to customers in a timely matter. In addition to the extended deferral account reconciliation period the AESO is now proposing to recognize interest on the refunds that the AESO has received from customers or TFOs. The preliminary AESO calculations on the recognition of interest indicate that load customers (DTS) would have to pay an additional \$2.9 million and supply customers (STS) would receive a corresponding credit of \$2.9 million since the AESO can record neither a profit nor a loss in a year. However the AESO proposal to recognize interest raises a number of concerns which the ASBG/PGA will elaborate on in the following. In reviewing the amounts and dates of adjustments included in the AESO Deferral Accounts [Schedule TCE.AESO-002 (b-c)] both the DTS and STS customers have overall net decreases as adjustments [\$13.7 million for DTS and \$33.6 million for STS]. Directionally this would suggest that both DTS and STS customers should be provided interest credits if there is recognition of interest in the deferral reconciliation process. However the STS net adjustment of a \$33.6 million decrease is largely attributable [\$29.4 million] to adjustments for losses costs which only impact STS customers. Therefore it is submitted that any recognition of interest responsibility in the circumstances of losses adjustments should result in interest charges and interest credits shared amongst STS customers without an impact on DTS customers.</p>	<p>As explained in Information Response TCE.AESO-002 (e), the deferral account surplus arising from the losses adjustment had the effect of reducing AESO interest expense from 2005 to 2008. Since interest expense was recovered from DTS and STS customers in 2005, and wholly from DTS customers in 2006 and later years, the reduction in</p>

Stakeholder Comment	AESO Response
<p>ASBG/PGA also note that of the \$29.4 million adjustments for losses costs, \$24.2 million is attributable to a single energy market participant [TCE.AESO-002 a]. The AESO indicated that a metering error for this single energy participant resulted in an overstatement of energy supplied to the system and consequently an overstatement of the losses in the system for the period 2001 through 2003. This amount was calculated on the basis of the hourly pool prices and corrected volumes during the 3 year period.</p> <p>ASBG/PGA submit that since this single energy market participant utilized additional AESO funds over the extended period then the AESO should consider further action for the recovery of interest on these excess funds from that participant. Additionally the AESO should consider whether any recoverable interest amount from this participant could be incorporated into the deferral account reconciliation process.</p> <p>With respect to DTS customers there is some apparent benefit of a refund of prior payments to the AESO by reducing the level of debt that the AESO requires for ongoing working capital requirements [TCE.AESO-10 a]. However it is uncertain on how the ad hoc refund payments are accommodated in the AESO's planning process for working capital requirements. If the AESO does not require the funds when they are received then presumably the funds are placed in short-term deposits that may attract minimal interest. On the other hand the AESO proposes to impute interest on the payments as soon as they are recorded in the AESO books. In the context of the present AESO proposal for the recognition of interest ASBG/PGA submit that an assessment of the costs and benefits for each of DTS and STS customers should be done separately to ensure that cross-subsidization does not occur.</p> <p>In conclusion ASBG/PGA submit that it is premature at this time to accept the proposed AESO methodology for a recognition of interest; this issue should be further investigated and could be addressed in the next Deferral Account Reconciliation Application. However the main 2004 – 2007 Deferral Account Reconciliation filing should proceed as expeditiously as possible with refunds provided to customers on the basis that these refunds would be refundable depending on the final decision of the Commission.</p>	<p>interest expense resulted in lower costs being charged to DTS customers than would otherwise be the case. If the interest impact is to be attributed just to STS customers, the interest expense to DTS customers must be increased and the interest expense to STS customers decreased, which is what the AESO has proposed to do.</p> <p>The AESO neither charges nor collects interest on billing adjustments on reissued statements of account. The AESO understands this to be common industry practice.</p> <p>Refunds to the AESO reduce interest expense actually incurred by the AESO on bank debt held to provide working capital and fund capital purchases. Such refunds are generally not included in the AESO's forecast of debt requirements. Although the AESO briefly held a losses adjustment refund in an interest bearing account as discussed in Information Response TCE.AESO-002 (e), it is of greater benefit to utilize such refunds to reduce debt balances. Those benefits as actually realized are returned to customers through the AESO's deferral account riders and reconciliations.</p> <p>For the reasons laid out in its April 8 letter, the AESO considers it more appropriate to include recognition of interest in its extended 2004-2007 application, although the matter should be subject to further investigation as part of the regulatory review of the application.</p>
<p>ATCO Power</p> <p>ATCO Power is in support of the recognition of interest in 2004-2007 Deferral Account Reconciliation Application.</p>	
<p>Cities of Red Deer and Lethbridge</p> <p>On behalf of the Cities of Red Deer and Lethbridge ("the Cities"), I am responding to the AESO's April 8th letter requesting stakeholder feedback on the AESO's "Recognition of Interest" proposal. On matters of principle, the Cities do not support the AESO's proposal, which can be characterized as a redistribution of deferral account balances by charging interest to those who owe money to the AESO in order to fund interest payments to those who are owed refunds.</p>	<p>The AESO disagrees with the characterization of its proposal to recognize interest as "a redistribution of deferral account balances by charging interest to those who owe money to the AESO in order to fund interest payments to those who are owed refunds." Rather, the AESO's proposal recognizes that the AESO's interest expense has been reduced as a result of deferral account surpluses existing for extended periods of time.</p>

Stakeholder Comment	AESO Response
<p>First, the Cities do not believe that AUC Rule 023, “Rules Respecting Payment of Interest” is of any guidance in this situation because it does not contemplate that the “utility” is the AESO. Given the history and full context of AUC Rule 023, the Cities believe that the Commission intended the utility shareholder, the party who is ultimately responsible for managing the timely disposition of deferral account balances, to be responsible for funding interest payments on refunds. Of course, the AESO is a non-profit organization and so in this situation other customers are left to fund the interest payments. Customers who are charged interest under the AESO’s proposal did not have any control over managing the timely disposition of the AESO’s deferral account balance, but they are penalized nonetheless.</p> <p>The inherent unfairness of the “Recognition of Interest” proposal is accentuated when the AESO attempts to limit the calculation of interest to the 2004-05 period. By doing so, the AESO does not consider how each customer’s tariff payment history from January 2006 to present day may have added to or reduced each customer’s allocated surplus or deficit. For example, it is particularly unfair that a customer could be charged more than two year’s worth of interest on an individual deficit balance that was already paid back in early 2006. Similarly, it would seem that the same customer should owe more interest if it continued to under-pay in 2006, and the same arguments of unfairness would also apply to customers with surplus balances. It is for this reason that the AESO cannot arbitrarily stop the interest calculation at December 2005. There is no logical end date to calculating interest once it has started.</p> <p>This leads to the Cities’ most serious concern about the AESO’s proposal: the AESO does not propose any firm policy for when the interest calculation will apply and when it will not. The Cities do not consider that there can ever be a principled, correct, or easily defined policy to govern when the interest calculation proposal can be applied in the future. Without any precedent other than “awarding interest is possible,” the Cities are certain that following some unforeseen or unusual event, a future AESO customer will raise the argument to award interest again. Should the AESO be convinced to pay interest, it will be unfair to all customers who were previously issued refunds without interest, either because the dollar amount was marginally smaller, the refund lag was marginally shorter, or the customer was simply not aware that they could have asked for and received similar treatment.</p> <p>In conclusion, the Cities strongly recommend that the AESO reconsider its intentions to include an interest calculation in its upcoming revised deferral account filing. In the effort to make things more equitable to those customers who were wronged, the AESO will only shift the burden to other parties while at the same time creating a precedent that will likely increase administrative and regulatory costs in the future.</p>	<p>The AESO does not consider the recognition of interest to be “penalizing” any customers. Rather, those customers have paid lower interest expense than they otherwise would have been charged. Allocating costs correctly among customers is the purpose of a deferral account reconciliation, and the AESO considers the recognition of interest to be consist with that purpose.</p> <p>The AESO does not propose to stop the recognition of interest at December 2005. Rather, the AESO proposed to calculate interest up to July 2008 on deferral account balances that existed up to December 2006. If those deferral account balances had been refunded to customers at that time, customers would have paid a higher interest expense over the following months. However, that was not the case — the surplus was retained by the AESO and is not being refunded until the extended 2004-2007 application is settled.</p> <p>The AESO agrees that it has not defined firm boundaries for when interest would be recognized in a deferral account reconciliation. However, it has established general guidelines as discussed in response to FortisAlberta’s comments on item (a) above.</p>

Stakeholder Comment	AESO Response
<p>If the AESO intends to file its "Recognition of Interest" proposal regardless, the AESO's final application to the AUC should recognize that there will not be unanimous support. Any deferral account reconciliations issued to customers before a final AUC decision on the matter should be partially withheld or simply exclude the interest calculation until such time as the matter is resolved.</p>	<p>The AESO acknowledges that its proposal to recognize interest has not received unanimous support. However, the AESO considers its proposal to be based on sound principles, and therefore plans to include recognition of interest in its extended 2004-2007 application and in its request for immediate "interim" settlement of the deferral account balances with customers. The AESO expects that recognition of interest will withstand regulatory scrutiny, and that including it in the application therefore has a greater (but not complete) likelihood of minimizing further adjustments when the deferral account reconciliation is approved on a final basis.</p>
<p>EPCOR Utilities Should the AESO decide to settle all amounts with customers in advanced of AUC approval, EPCOR will have no objections.</p>	
<p>FortisAlberta During the April 16th, 2008 Consultation on this issue, the AESO requested parties' comments on whether it would be advisable to proceed with immediate financial settlement of the deferral reconciliation amounts prior to receiving AUC approvals on this matter. FortisAlberta notes that, subsequently, the AUC issued a letter of April 16th, 2008 on this Application in which the AUC contemplates issuing an order before any immediate financial settlement occurs. That being said, FortisAlberta does not believe that the letter prohibits financially settling the applied-for principal amounts in a timely manner upon AUC <u>interim</u> approval of these amounts. Final settlement adjustments could then follow, if required, once the AUC has issued a final determination on this matter, including any additional scrutiny of particular issues such as the recognition of interest.</p>	<p>As discussed in response to TransCanada's comments on item (f) above, given the comments in the AUC's letter the AESO now intends to request AUC approval for early "interim" settlement of the deferral account balances, and has accordingly extended the interest calculation to July 2008.</p>
<p>TransAlta Not sure why the AESO chose the method they did rather than calculating interest on the overpayments and underpayments (should be the same overall amount).</p>	<p>The AESO considers that calculating interest on specific overpayments and underpayments would likely omit smaller amounts that might in aggregate be significant, and would ignore partial settlement of such amounts as ordinarily occurs through the AESO's tariff. Calculating interest on deferral account balances rather than specific payments captures all amounts that give rise to deferral account balances and accommodates amounts refunded or collected in part throughout the year.</p>

Stakeholder Comment	AESO Response
<p>UCA</p> <ol style="list-style-type: none"> 1. The UCA would suggest the use of mid month (average of opening and closing balances) balances is a better measure of cash requirements through the month than month end balances as proposed. The UCA requests that the AESO investigate the impact of this on the amount of interest, and if significant, implement for this application. Also, the AESO should use mid month balances in the future when interest is required. 2. The UCA is not opposed to the immediate disbursement of funds pending AUC approval as long as the AESO is clear in the wording of all correspondence that the amounts are subject to AUC approval and may change. 	<p>The AESO will base the interest calculation on a mid-month deferral account balance to align with use of average monthly interest rates.</p> <p>As discussed in response to TransCanada's comments on item (f) above, given the comments in the AUC's letter the AESO now intends to request AUC approval for early "interim" settlement of the deferral account balances, and has accordingly extended the interest calculation to July 2008.</p>