



June 25, 2008

Submitted via Digital Data Submission System

Alberta Utilities Commission
Utilities Division
Fifth Avenue Place
4th Floor, 425 – 1st Street SW
Calgary, Alberta
T2P 3L8

Attention: Jamie Cameron, Application Officer

Dear Jamie:

Re: **AESO Comments on Immediate Interim Settlement of
AESO 2004-2007 Deferral Account Reconciliation (Application 1574594)**

The Alberta Electric System Operator (AESO) provides the following comments with respect to immediate interim settlement with customers of amounts provided in the above-noted application, in accordance with the June 20, 2008 letter of the Alberta Utilities Commission (AUC). These comments provide additional background and supplement the information included in the AESO's application.

1. Immediate Interim Settlement

The AESO discussed immediate interim settlement with stakeholders in a written consultation process in March 2008, and information distributed to stakeholders as well as written comments received from stakeholders may be accessed on the AESO web site at www.aeso.ca by following the path Tariff ► Current Applications ► 2004-2005 Deferral Account Reconciliation ► Consultation on Potential Changes to Application Process. No comments were received from any party opposing immediate interim settlement, and parties who expressed support represented nearly all of the registered participants in the 2004-2005 deferral account proceeding. Additional comments on the stakeholder consultation are provided in section A-12 in Appendix A of the AESO's 2004-2007 application.

In addition to being supported by stakeholders, the AESO considers that immediate interim settlement satisfies relevant factors that the AUC has employed in evaluating applications for interim approval, such as those summarized in Decision 2005-099 issued August 29, 2005 on the ATCO Gas 2005-2007 General Rate Application. The factors broadly relate to the quantum of and need for interim approval, and to more general public interest considerations. The AESO

provided its assessment of how interim settlement would satisfy the relevant factors in section 1.2 of its 2004-2007 application.

With respect to the quantum of and need for the interim approval, the AESO submits that the \$51.1 million net balance reconciled in the application represents a probable and material amount that satisfies these factors.

With respect to more general public interest considerations, the AESO submits that settling the deferral account amounts as quickly as practical is in the public interest. In particular, the AESO notes that \$19.2 million is determined in the application to be refundable to the six AUC-regulated distribution facility owners, and a significant portion of that amount will be refunded to residential, farm, and small commercial consumers. As explained in the AESO's application, immediate interim settlement of those amounts will result in:

- (a) rate stability, as the AESO reasonably expects the methodology and allocation contained in the application will receive final approval, based on the absence of material concerns raised with respect to the same methodology and allocation used in the AESO's original 2004-2005 application; and
- (b) intergenerational equity, by returning deferral account amounts to customers as soon as possible to minimize the time between when those amounts were first collected and when they are refunded.

The AESO submits that the application therefore satisfies the public interest factors generally employed by the AUC.

2. Redistribution of Interest

In its June 20 letter, the AUC also specifically asked for comments on the reasonableness of granting interim approval of the redistribution of interest proposed by the AESO.

The AESO discussed redistribution of interest with stakeholders in a meeting and written consultation process in April 2008, and information distributed to stakeholders as well as written comments received from stakeholders may be accessed on the AESO web site at www.aeso.ca by following the path Tariff ► Current Applications ► 2004-2007 Deferral Account Reconciliation ► Consultation on Recognition of Interest. Although participants did not unanimously support redistribution of interest in the comments provided, the AESO considers its application to have responded to the concerns raised in this regard.

As explained in section 1.3 of its 2004-2007 application, the AESO determined that it was appropriate to propose the redistribution of interest in the unique circumstances of this application. The AESO then faced a pragmatic challenge with respect to its request for interim approval. One of the factors that the AUC has employed in evaluating applications for interim approval is that all or some portion of any contentious items may be excluded from the amounts approved, and participants in the AESO's consultation did not unanimously support redistribution of interest. However, the AESO's application needed to include about 1,100 pages

of customer allocation information in Appendices H, J, K, and L, and similar but more extensive information would be provided to customers on request at a settlement point level.

The AESO was not able to prepare two versions of the information (that is, one with and one without interest redistribution) prior to filing the application, and furthermore considered that providing two versions would potentially lead to confusion and uncertainty on the AESO's position with respect to redistribution of interest. The AESO concluded that filing one version of the customer allocation information was most appropriate, and that the filed version should include redistribution of interest so that participants could accurately assess the application as proposed by the AESO.

If the AUC is now potentially considering approval of the AESO's request for immediate interim settlement of the deferral account balance, excluding the redistribution of interest, then it would remain a significant undertaking to reverse the interest redistribution amounts, recalculate the customer allocations, and provide revised settlement point detail to those customers who have requested it. The AESO estimates that completing and verifying the recalculation would take about four calendar weeks due to availability of resources and other priorities, which means that interim settlement could not occur in July.

Furthermore, the interest amounts being redistributed represent \$2.9 million, which is significantly less than the \$51.1 million deferral account balance being refunded in this application. The AESO submits that it is inappropriate for a relatively small amount to prevent or delay the return of a much larger balance to customers.

Lastly, the AESO does not believe interim approval of any aspect of its application constitutes "pre-judgment" of the matter. Approval of amounts on an interim refundable basis does not necessarily suggest such amounts are likely to receive final approval, nor does disallowance of amounts in an interim approval necessarily suggest such amounts are likely to be disallowed in a final decision. Interim refundable amounts are simply approved on an expedited basis without full review in consideration of the factors discussed in section 1 above, and are subject to a final decision after a full review has been completed. In the event that redistribution of interest is allowed in an interim decision and disallowed in a final decision, the AESO would propose to settle the revised amounts in its 2008 deferral account reconciliation application. Alternatively, depending on the specific direction of the AUC, the AESO would recalculate the deferral account impact and settle the differences immediately after the final decision was issued, although such separate settlement would entail additional revisions to the software program used for deferral account settlement.

3. Conclusion

The AESO submits its request for immediate interim settlement of deferral account amounts satisfies the factors generally employed by the AUC in assessing such requests, namely, those factors related both to the quantum of and need for interim approval, and to more general public interest considerations.

From a practical perspective, the AESO submits it would be inefficient to approve interim settlement but disallow the redistribution of interest. Such conditional approval would require significant re-work of the application by the AESO, would further delay interim settlement with customers, and would to some extent defeat the purpose of the request for interim approval to promptly return deferral account amounts to customers.

The AESO appreciates the opportunity to provide additional comments to the AUC. If you have any questions on these comments or need additional information, please contact me at 403-539-2465 or by e-mail to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO
Carol Moline, Director, Accounting & Treasury, AESO
Registered Participants, AESO 2004-2007 Deferral Account Reconciliation Proceeding