



July 23, 2008

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

Attention: Jamie Cameron, Application Officer

Dear Jamie:

Re: **Responses to Information Requests on AESO 2004-2007 Deferral Account Reconciliation Application (Application No. 1574594, Proceeding ID 60)**

Attached are the AESO's responses to information requests received pursuant to the above-noted application.

As requested in the Commission's information requests, the response to AUC.AESO-001 (a) has been submitted on a confidential basis to Commission Staff.

If you have any questions on these information responses, 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

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO  
Carol Moline, Director, Accounting & Treasury, AESO

**Reference:** Application, Section 1.2, Immediate Interim Settlement With Customers, page 9 of 128.

**Quote:** One aspect of this application not included in the original 2004-2005 application is the redistribution of interest on deferral account balances. This matter was discussed with stakeholders in April 2008 but did not receive consensus support from all parties as summarized in section A-13 of Appendix A. This application nevertheless includes redistribution of interest for reasons discussed in more detail in section 2.3 of this application. The redistribution of interest does not change the overall deferral account balance, and simply affects the allocation of about 6% (\$2.9 million) of the \$51.1 million net balance being settled in this application. On balance, the AESO considers that including redistribution of interest is a reasonable approach and more likely to result in intergenerational equity, and therefore contributes to the reasons interim approval is appropriate in this case.

**Preamble:** The redistribution of interest is a contentious item

**Request:**

Since the proposed redistribution of interest in the Application utilizes a non approved methodology of refunding STS customers by charging DTS customers please provide revised supporting schedules that exclude the redistribution of interest.

**Response:**

Several tables and an appendix from the AESO's application have been revised to exclude the redistribution of interest and are attached as Schedules ASBG-PGA.AESO-001-A through -H. The tables and appendix were selected as they provide annual cost information (Schedules -A to -F) and annual and total customer deferral account balances (Schedules -G and -H) which detail the impact of the interest redistribution when compared to the similar tables and appendix in the application.

- (A) Table 2-4, Summary of 2004-2007 Deferral Account Reconciliation Application, provides a high-level summary of production year costs. The General & Administrative costs have been revised to reflect the exclusion of interest redistribution.

Table 2-4 excluding interest redistribution includes a net deferral account surplus of \$50.8 million compared to the surplus of \$51.1 million included in the AESO's application. The difference results from the increase in interest expense calculated for 2008 on an accounting month basis (as provided in Table 2-3 on page 20 of the application) being offset by a credit in earlier years on a production month basis. The increase in interest expense in 2008 will be included in the AESO's 2008 deferral account reconciliation application, while the credit increases the surplus in the 2004-2007 application.

- (B) Table 3-1, 2007 Revenue Requirement and Recorded Costs, provides the detailed annual production year costs for 2007. Interest costs on line 54 have been revised to reflect the exclusion of interest redistribution. (Costs sections which are not affected by the exclusion of interest redistribution (such as wires costs, for example) have been collapsed into a single total costs line.)
- (C) Table 4-1, 2006 Revenue Requirement and Recorded Costs, provides the detailed annual production year costs for 2006. Interest costs on line 56 have been revised to reflect the exclusion of interest redistribution. (Costs sections which are not affected by the exclusion of interest redistribution (such as wires costs, for example) have been collapsed into a single total costs line.)
- (D) Table 5-1, 2005 Revenue Requirement and Recorded Costs, provides the detailed annual production year costs for 2005. Interest costs on line 57 have been revised to reflect the exclusion of interest redistribution. (Costs sections which are not affected by the exclusion of interest redistribution (such as wires costs, for example) have been collapsed into a single total costs line.)
- (E) Table 6-1, 2004 Revenue Requirement and Recorded Costs, provides the detailed annual production year costs for 2004. Interest costs on line 61 have been revised to reflect the exclusion of interest redistribution. (Costs sections which are not affected by the exclusion of interest redistribution (such as wires costs, for example) have been collapsed into a single total costs line.)
- (F) Table 7-2, 2003 First and Second Deferral Account Reconciliation Variances, provides the detailed annual production year costs for 2003. Interest costs on line 61 have been revised to reflect the exclusion of interest redistribution. (Costs sections which are not affected by the exclusion of interest redistribution (such as wires costs, for example) have been collapsed into a single total costs line.)
- (G) Appendix H-2, 2001-2007 Customer Deferral Account Balances – Totals by Year, provides the customer deferral account reconciliation amounts on a production year and total basis, revised to reflect the exclusion of interest redistribution.
- (H) Table 10-1, Distribution of Charges and Refunds Among Customers, summarizes the distribution of charges and refunds among individual DTS and individual STS customers, revised to reflect the exclusion of interest redistribution.

**Reference:** Section 2, page 20 of 128

**Quote:** Table 2.3 – Redistribution of interest

**Preamble:** Total accounting month interest of \$2.4 million and DTS interest charges of \$2.9 million.

**Request:**

- (a) Please provide a summary and the supporting details for the accounting interest calculations by month which totals \$2.4 million over the specified period 2004 – 2008.
- (b) Please provide the AESO actual interest amounts by month for the similar period 2004 – 2008. Please include, describe and reconcile the fixed components and variable components of the actual interest charges by month.
- (c) For the actual interest charges in b) above please provide the summary and supporting calculations by month for the allocations to DTS and STS customers.
- (d) Please reconcile the imputed accounting interest amounts and the actual interest amounts by month for the period 2004 – 2008.
- (e) For the actual interest charges in b) above please provide the AESO planning considerations for variability in costs by cost components such as losses etc. Please provide a reconciliation of the forecast interest charges and actual interest charges by month for the period 2004 – 2008.
- (f) Please explain the causes for the difference in accounting interest charges of \$2.4 million and the proposed DTS interest charge of \$2.9 million.
- (g) Please provide a reconciliation of the \$0.5 million difference between the accounting calculation and the rate calculation.
- (h) Please provide the reasons for the commencement of interest calculations in January 2004 as compared to other dates.

**Response:**

- (a) Please see columns 1-4 of attached Schedule ASBG-PGA.AESO-002 (a-e).
- (b) Please see columns 5-7 of attached Schedule ASBG-PGA.AESO-002 (a-e).

The actual interest costs in a month result from bank debt balances held by the AESO for working capital due to the timing difference in the collection of revenue and the payment of expenses, and to fund capital purchases. On an annual basis, the 'source' of

the debt requirements is reviewed to determine which business function (transmission, energy market or load settlement) required the bank debt for its operations and to develop allocation percentages for the AESO's budget.

Throughout the year, the budgeted allocation percentage is used to associate monthly interest expense to each of the three business functions. At the end of the year, a full-year assessment is made of the actual debt balances and the allocation percentages are adjusted as required.

Due to the methodology that is used to allocate interest to the three business functions of the AESO, the monthly debt balances are not directly associated to a business function (such as transmission). The interest expense amounts therefore represent allocated annual values.

The actual interest expense amounts shown in column 5 of Schedule ASBG-PGA.AESO-002 (a-e) represent variable interest costs (based on the debt balance and the borrowing rate) and fixed interest costs (comprising credit facility standby fees and fees charged related to the letter of credit issued as security for operating reserve procurement). The fixed interest costs are approximately \$75,000 per year.

- (c) Please see columns 8 and 9 of attached Schedule ASBG-PGA.AESO-002 (a-e).

Interest expense (categorized as part of general and administrative costs) are allocated in the same manner as interconnection charges in the AESO's deferral accounts. From 2002 to 2005, interconnection charges were allocated 58% to DTS customers and 42% to STS customers. For 2006 and later years interconnection charges were allocated 100% to DTS customers.

- (d) Please see column 10 of attached Schedule ASBG-PGA.AESO-002 (a-e).

- (e) When filing an AESO's tariff application, an estimate is included for annual interest expense which is based on anticipated letter of credit and standby fees, funding of capital assets, and monthly deferral balances. Given the uncertainty of the timing of revenue and costs, which determine the monthly deferral balances, the annual interest expense amount is difficult to estimate with accuracy.

Interest expense estimates are prepared on an annual basis only, not on a monthly basis. Please see columns 11 and 12 of attached Schedule ASBG-PGA.AESO-002 (a-e) for a comparison of actual and estimated annual interest expense.

- (f) The difference is due to:
- (i) the reversal of the accounting interest expense which was included in the interconnection charges rate component and allocated to STS and DTS customers based on the allocation percentages of that category, offset against
  - (ii) the recording of the production month interest expense adjustments allocated to the same rates (DTS or STS) and rate components (interconnection, losses, operating reserve, etc.) to which the deferral account balances were attributed.

- (g) Please see attached Schedule ASBG-PGA.AESO-002 (g).

- (h) Please refer to items (4) and (5) in the AESO's opening comments in the response to TCE.AESO-002 (a-d) for the AESO's reasons for calculating interest on deferral account balances from 2004 to 2006 only.

**Reference:** Section 2, page 18 of 128.

**Quote:** As background, a deferral account balance generally adds to (in the case of a shortfall) or reduces (in the case of a surplus) the bank debt balances held by the AESO. Bank debt provides the AESO with working capital due to the timing difference in the collection of revenue and the payment of expenses, and funds capital purchases by the AESO. Interest expense is incurred by the AESO as a result of bank debt, and a deferral account balance accordingly increases (in the case of a shortfall) or decreases (in the case of a surplus) interest expense. Interest expense is included in general and administrative costs and is allocated in the same manner as interconnection charges in the AESO's deferral accounts.

**Preamble:** Bank debt balances

**Request:**

- (a) Please provide a continuity schedule of the bank debt balances by month commencing in Jan 2004 to March 2008 and the associated interest expense or income by month.
- (b) Please identify the funds directed to capital projects by month and whether such funds were for DTS or STS projects.

**Response:**

- (a) Please see attached Schedule ASBG-PGA.AESO-003 (a).

As explained in Information Response ASBG-PGA.AESO-002 (b), monthly debt balances are not associated with a specific business function (transmission, energy market, or load settlement). The annual interest costs resulting from debt balances are associated with one of the business functions after a year-end assessment of the debt balances is complete. Prior to the year-end assessment, the monthly interest allocations to the business functions are estimates.

Schedule ASBG-PGA.AESO-003 (a) provides the AESO's total debt and interest balances from 2004 to 2008 in addition to the allocation of interest to the transmission function during this period.

- (b) The AESO holds bank debt to meet ongoing working capital requirements and to fund capital purchases (the costs of which are recovered over the life of the asset). The AESO manages its borrowing requirements through short term borrowings due to the fluctuations in working capital requirements and, at any given time, working capital surplus will be used to offset debt requirements for capital assets.

The recovery of capital purchases occurs on an annual basis through the amortization of the assets. Amortization costs (included in the revenue requirement schedules) are

categorized with interconnection charges which were recovered 58% from DTS customers and 42% from STS customers prior to 2006, and which have been recovered 100% from DTS customers since 2006. Capital projects are not assigned as DTS and STS projects.

**Reference:** Application Section 2.7, p. 26

**Title:** Identity of Direct-Connect Customers

**Preamble:** The AESO indicates in section 2.7 that in order to protect the identity of direct-connect customers, detailed information describing the allocation of deferral account balances to individual AESO customers has been concealed by assigning an identifier number to each AESO customer. The AESO further indicates that the identity number assigned to specific customers is not necessarily the same for each deferral account year covered in the application.

**Request:**

- (a) Please provide to Commission Staff, on a confidential basis, a conversion schedule which would allow Commission Staff to match the identifier number assigned to each direct-connect customer in 2004 to the identifiers used in each of the other deferral account years covered in the application.
- (b) In the conversion schedule referenced in (a) above, please identify for each customer identifier whether the customer in question is a direct-connect customer of the AESO or a “flow-through” customer of a distribution company.

**Response:**

- (a) The requested information has been provided on a confidential basis to the AUC, in Confidential Schedule AUC.AESO-001 (a).
- (b) Amounts related to “flow-through” customers of distribution companies are included in the distribution company amounts provided in the deferral account reconciliation application, which are identified by the name of the distribution company.

All amounts identified with customer numbers relate to customers that are direct-connect-customers of the AESO, not “flow-through” customers of a distribution utility. Amounts for the direct-connect customers in the schedule provided in part (a) therefore do not contain any amounts related to “flow-through” customers of a distribution company.

**Reference:** Application Section 2.8, p. 27

**Title:** Prospective Approaches

**Preamble:** The application states:

“As further discussed in section A-8 of Appendix A of this application, the AESO proposes to consult with stakeholders in early 2009, after the AUC issues its final decision on the extended 2004-2007 application. The consultation will consider:

- when and on what basis full reconciliations should be permanently discontinued for a deferral account year; and
- whether a prospective methodology could be implemented for the AESO’s deferral accounts.

If the consultation results in recommendations for 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.”

**Request:**

Please clarify whether the AESO is seeking a decision from the Commission in respect of a possible prospective reconciliation approach within the current proceeding. If so, please indicate what relief the AESO seeks in relation to this proposal within the context of the present proceeding.

**Response:**

The AESO is not seeking any decision from the AUC within the current proceeding in respect of a possible prospective reconciliation approach. As indicated in the quoted text from the AESO’s application, any proposal for a prospective reconciliation approach would be proposed to the AUC by the AESO as part of a General Tariff Application or as a separate application.

**Reference:** Application Section 3.1.2, p. 36

**Title:** ILRAS Program Costs

**Preamble:** The application states:

“Interruptible load remedial action scheme (ILRAS) supports the import capability of the Alberta-BC interconnection. If the Alberta-BC interconnection trips concurrent with high levels of import, the system will become generation deficient, system frequency will decline, and the AESO will be required to shed load quickly in Alberta to arrest the frequency decline and maintain system reliability. The AESO contracts for loads to automatically trip in these situations to limit the frequency decline and attempt to prevent shedding of additional system load. The 2007 recorded cost for ILRAS service was \$0.004 million, which is \$0.7 million (or 99%) less than the 2007 approved forecast of \$0.7 million due to the provision of ILRAS being amended in early 2007 such that ILRAS is utilized only when the AIES is experiencing or expects an imminent supply shortfall.”

**Request:**

- (a) Please describe the impact, if any, that the lower than forecast expenditure on ILRAS service has had on the availability and/or capacity of the Alberta-BC interconnection for imports into Alberta.
- (b) If the AESO identifies any impacts in paragraph (a) that have reduced the operational capacity of the Alberta-BC interconnection below its path rating, please describe the AESO’s plans to address this situation.

**Response:**

- (a) “Total transfer capability” (TTC) is defined as “the amount of electric power that can be transferred over the interconnected transmission network in a reliable manner while meeting all of a specific set of defined pre- and post-contingency system conditions” (*ISO Rules* in effect May 1, 2008). The ILRAS amendment in early 2007 (which resulted in the lower-than-forecast expenditure on ILRAS service in 2007) has had no impact on TTC on the Alberta-BC interconnection. Now as in the past, ILRAS continues to be utilized to maintain TTC when the AIES is experiencing or expects an imminent supply shortfall.

“Available transfer capability” (ATC) is defined as “a measure of the transfer capability remaining in the physical transmission network for further commercial activity over and above already committed uses” (*ISO Rules* in effect May 1, 2008). The ILRAS amendment in early 2007 has reduced ATC on the Alberta-BC interconnection, as it no longer supports utilization of ILRAS to increase imports under normal operating

conditions. The impact is a reduction of up to 150 MW in ATC for about 400 hours, based on ILRAS utilization in 2006 prior to the ILRAS amendment in early 2007.

- (b) Since October 2007, the AESO has been consulting with industry (including generators, load customers, and distribution utilities) in order to determine the appropriate provision of ILRAS and similar load shed services to support the use of the Alberta-BC interconnection. This consultation is expected to ultimately support replacing the historical arrangement in which FortisAlberta's distribution customers have been the sole providers of ILRAS. The amendment to ILRAS service that resulted in lower costs (due to supporting imports only under supply shortfall conditions) was an interim change that industry requested until such time as a final approach was implemented.

In addition, earlier this year the AESO completed studies of the utilization of ILRAS, 59.5 Hz Load Shed Service (LSS), and Brazeau Fast Ramp service to increase imports under normal operating conditions, to restore ATC to its previous levels. Conclusions from the studies recommended that ILRAS and LSS be combined into a single Load Shed Requirements (LSR) service, and that Fast Ramp be continued as a separate service.

The AESO accordingly issued a request for Expressions of Interest (EOIs) for provision of 485 MW of LSR service and 150 MW of Fast Ramp service, as industry generally considered that ideally the service should be provided through a competitive market process. However, the results of the EOI were not sufficient to fulfill the service requirements, and the AESO is therefore continuing to work with industry to establish next steps towards resolution of this issue. The AESO expects to complete its consultation by the end of this year.

**Reference:** Application – Section 2.1.1 – Significant Prior Period Adjustments

AESO 2004-2005 Deferral Account Reconciliation Application (1548908) –  
Schedule TCE.AESO-002 (b-c).

**Preamble:** Schedule TCE.AESO-002 (b-c) lists the details of the “significant prior period adjustments” in response to TCE.AESO-002, 003, 004, 005, 006 and 009. TransCanada is concerned that the dates shown in Column D (Financial Obligation Dates) are not the dates when the customers either overpaid or underpaid the AESO. TransCanada wishes to determine whether Column H (Related Production Year(s)) reflects the dates when the customer either overpaid or underpaid the AESO or some entity (Power Pool, TFO, etc.) that eventually passed the charges or credits through to the AESO.

**Request:**

- (a) Please confirm that Column H (Related Production Year(s)) are the dates when the under/over payments occurred from customers for all the “significant prior period adjustments” listed. If not, provide the dates when the under/over payments occurred for the significant prior period adjustments listed.
- (b) Please confirm that some customers underpaid and others overpaid the AESO prior to the Column D (Financial Obligation Dates) determined by the AESO in Schedule TCE.AESO-002 (b-c). If unable to confirm, please explain.

**Response:**

- (a-b) Not confirmed. Column D (Financial Obligation Date) in Schedule TCE.AESO-002 (b-c) would generally be considered the date at which underpayments or overpayments to the AESO were established. Prior to the Financial Obligation Date, all payments to the AESO would be considered correct and in accordance with costs, regulatory decisions, bills issued, and procedures in effect at the time. The Financial Obligation Date was the date on which an underpayment or overpayment was determined to exist and specifically quantified; until that date no underpayment or overpayment to the AESO existed.

For example, several adjustments in Schedule TCE.AESO-002 (b-c) arose from AUC Decisions related to prior periods. Up to the dates of those decisions, bills issued to customers and payments received from customers were in accordance with all current decisions, and therefore no underpayments or overpayments existed. The decisions effectively established underpayments and overpayments which were subsequently associated with prior years on a production month basis. Underpayments and overpayments did not exist prior to the decisions, however.

**Reference:** Application – Section 2.1.1 – Significant Prior Period Adjustments

AESO 2004-2005 Deferral Account Reconciliation Application (1548908) –  
Schedule TCE.AESO-002 (b-c).

2004-2007 Deferral Account Reconciliation Technical Meeting Presentation,  
June 16, 2008 – Slide 14 (page 7)

**Preamble:** The AESO identifies significant adjustments in the deferral account in AESO  
2004-2005 Deferral Account Reconciliation Application (1548908) – Schedule  
TCE.AESO-002 (b-c).

The AESO identifies a \$6.2 million refund relating to Transmission Administrator  
(TA) adjustments reflecting 2001-2005 changes to point-of-delivery meter  
volumes and a \$2.1 million charge relating to TMR services from the Rainbow  
Lake Facilities in Section 2.1.1 of the current application.

In the 2004-2007 Deferral Account Reconciliation Technical Meeting  
Presentation – Slide 14 (page 7), the AESO has a summary of the net surplus  
(shortfall) for each production year relating to Table 2-4 from the application.

TransCanada seeks an accurate estimate of the interest impacts of the  
overpayments and underpayments to the AESO from the year those  
overpayments and underpayments occurred until June 2, 2008.

**Request:**

- (a) Please take all the adjustments listed in Schedule TCE.AESO-002 (b-c) and the two additional adjustments identified in Section 2.1.1 of the Application, and breakdown each adjustment into its production years (in the same manner as the \$51.1 million surplus on slide 14 of the AESO's technical meeting presentation was assigned to calendar years).
- (b) Please take the year by year results calculated in (a) above, and attribute the amounts to the two primary customer classes (STS and DTS).
- (c) Please take the results in (b) above, and calculate the accumulated interest year by year (using interest rates consistent with AUC Rule 023 and an obligation termination date of June 2, 2008 for all adjustments) for each customer class (DTS and STS) associated with these amounts based on the production years for each adjustment. If the AESO is unable to provide the requested interest calculation based on the approach in (a)-(c), please provide the requested interest impacts using the AESO's judgment.
- (d) TransCanada has prepared Table TCE-AESO-002(e) below on the basis of the information provided in Technical Session Slide 14 (page 7) as an approximate estimate of cumulative interest amounts.

- (i) Please provide a more accurate calculation of the interest on outstanding yearly balances compounded annually using 6% per year in a format similar to the table below.
- (ii) In a second table, adjust the annual rate of interest to reflect the Bank of Canada Rate plus 1.5% compounded monthly. Please provide a further calculation of the interest apportioned to STS and DTS customers for these tables.

**Table TCE-AESO-002(e)**  
**Amounts expressed in millions of dollars**

	Amount owed or owing	Cumulative amount owed or owing	Interest at 6% compounded annually	Cumulative amount owed or owing after interest
1999-2001	9.8	9.8	0.6	10.4
2002	32.3	42.1	2.6	45.2
2003	2.0	44.1	2.8	50.1
2004	-5.3	38.8	2.7	47.5
2005	-0.9	37.9	2.8	49.4
2006	11.3	49.2	3.6	64.3
2007	2.0	51.2	4.0	70.3
	51.2	51.2	19.1	70.3

**Response:**

The AESO has provided the requested calculations in the schedules attached to this response and referenced below. However, the AESO does not consider that the calculations requested by TransCanada represent either a fair, reasonable, or appropriate determination of interest, for the following reasons.

- (1) As discussed in the response to Information Request TCE.AESO-001 (a-b), no underpayments or overpayments exist prior to the financial obligation dates provided by the AESO in Schedule TCE.AESO-002 (b-c).
- (2) Interest accruing on an amount owed prior to it being paid is generally determined at the time of payment. For example, AUC Decision 2004-104 on ATCO Electric's 2003 Deferral Accounts determined an amount owed to the AESO with respect to 2003, and included calculation of interest on that amount owed by ATCO Electric. Calculating additional interest on those amounts in the AESO's deferral account reconciliation would effectively determine interest twice on the same amount, for those periods on which ATCO Electric calculated interest.

Also, the AESO neither charges nor refunds interest on amounts owing on restatements of account arising from metering adjustments, consistent with the practice of distribution utilities in Alberta with respect to bill adjustments. It would be inappropriate to retroactively change this practice in the context of a deferral account proceeding. Any review of such practice should be conducted in a tariff application in which terms and conditions affecting payment obligations are debated.

In summary, interest accruing on amounts owed should be determined as part of the calculation of the amounts, rather than after the fact in a deferral account reconciliation.

- (3) Determining interest on either the total of unreconciled adjustments or on the outstanding balance of the deferral account overstates the amount of interest to be redistributed. For example, part (d) below suggests interest should be calculated on the \$49.2 million deferral account balance for 2006. However, the AESO's deferral account surpluses during 2006 averaged \$19.0 million as provided in Table 2-2 on page 18 of the AESO's 2004-2007 application. The difference in these amounts had already been refunded to customers through Rider C. If interest is calculated on a \$49.2 million balance, it implies the AESO would have greatly increased its bank debt, and therefore incurred larger interest expense which would then be charged to customers. The impact would be a smaller net interest amount, closer to the amounts included by the AESO in its application.
- (4) Determining interest on amounts for production years prior to 2004 ignores the full reconciliation of prior year amounts approved for the AESO's 2003 deferral account reconciliation. At the time of the AESO's 2003 application, no outstanding deferral account balances remained with respect to 2003 and prior periods. That is, the 2003 application reconciled all amounts owed to or by the AESO up to December 31, 2003, at the time of the application. No interest expense should therefore be calculated with respect to those years in the current application.
- (5) The application should not include interest with respect to transactions which occurred after December 31, 2006. Those transactions are included in the 2004-2007 deferral account reconciliation application, which was filed on June 2, 2008 — generally consistent with expectations of deferral account reconciliations being filed shortly after year-end. As such, no interest should be calculated on transactions occurring in 2007, as deferral accounts should not generally attract interest except due to extraordinary regulatory lag as contemplated in section 3(2)(b) of AUC Rule 023. The AESO notes in particular the \$19.2 million ATCO Electric refund to the AESO in December 2007 and the \$6.2 million refund from TA Adjustments to meter volumes occurring in March 2008, neither of which should result in interest redistribution as both are being addressed through a timely settlement of the AESO 2007 deferral account in the current application.

Therefore, for the reasons provided in section 2.3 (page 17-21) of its 2004-2007 deferral account reconciliation application, and for the additional reasons set out above, the AESO considers the redistribution of interest included in its application to be more reasonable and appropriate than the approaches suggested by TransCanada. The provision of the calculations requested by TransCanada in the following responses by the AESO should not be interpreted in any way as suggesting that the AESO supports any of these approaches to determining interest. The approach supported by the AESO is as described and included in its application.

- (a) Please see attached Schedule TCE.AESO-002 (a) for the requested allocation of adjustments to production years.
- (b) Please see attached Schedule TCE.AESO-002 (b) for the requested allocation of adjustments by production year to DTS and STS rate classes.
- (c) Please see attached Schedule TCE.AESO-002 (c) for the requested calculation of accumulated interest by year. Interest was calculated on the mid-year balance of

accumulated adjustments using interest rates consistent with AUC Rule 023. The AESO does not consider the method used in Schedule TCE.AESO-002 (c) to be fair, reasonable, or appropriate, for the reasons outlined above.

- (d) (i) Please see attached Schedule TCE.AESO-002 (d)(i) for the requested calculation of accumulated interest by year. Interest was calculated on the mid-year accumulated deferral account balances using a constant 6% interest rate. The AESO does not consider the method used in Schedule TCE.AESO-002 (d)(i) to be fair, reasonable, or appropriate, for the reasons outlined above.
- (ii) Please see attached Schedule TCE.AESO-002 (d)(ii) for the requested calculation of accumulated interest by year. Interest was calculated on the mid-year accumulated deferral account balances using interest rates consistent with AUC Rule 023. The AESO does not consider the method used in Schedule TCE.AESO-002 (d)(ii) to be fair, reasonable, or appropriate, for the reasons outlined above.