

Reference: Attachment to AESO Response to ASBG-PGA-002(a-e) Details

Preamble: Columns 4, 5, 6, 7 and 11, 12

Request:

- (a) Please add the monthly actual interest expense, Col 5, for 2002 and 2003 to the Table provided.
- (b) Please discuss whether there is a double counting in Col 7 if Col 6 is simply a redistribution of the calculated accounting interest provided in Col 4.
- (c) How does the total interest amounts of \$6.07 million in Col 7 (Ln 106) relate to actual interest amounts of \$2.06 million and imputed interest amounts of \$2.36 million.
- (d) The difference in interest expense between forecast and actuals (Cols 11 and 12, Ln 106) shows an amount of \$0.32 million. Please discuss why this amount of interest is not reflective of any purported "benefit" of the AESO positive deferral account balances, i.e. the AESO incurred less interest expense due to the available deferral account balances.

Response:

- (a) Adding actual interest expense for 2002 and 2003 to Schedule ASBG-PGA.AESO-002 (a-e) would result in totals inconsistent with amounts included in the application. Only the interest on monthly deferral account balances after January 1, 2004, should be included in the 2004-2007 application, as there were no outstanding deferral account balances with respect to 2002 and 2003 as of the January 31, 2004 data cut-off date (August 31, 2004 for losses) for the AESO's previous 2003 deferral account reconciliation application refiled in December 2004.

Only prior period variances in actual interest expense for 2002 and 2003 should be included in the 2004-2007 application, and there were no such variances for 2002 and 2003. Please refer to points (4) and (5) in the AESO's preamble to Information Response TCE.AESO-002 (a-d) for additional comments on the relevant periods for the calculation of interest.

- (b-c) The AESO inadvertently omitted a summing formula in column 7 for 2002 and 2003 in Schedule ASBG-PBA.AESO-002 (a-b). A revised version of the table is provided as attached Schedule ASBG-PGA.AESO-004 (b-c), which results in correct totals for interest amounts.

There is no double-counting of amounts in Column 7. The amounts in columns 4 to 6, which are summed in column 7, represent the net monthly impact from actual interest expense incurred (column 5) and the adjustments to re-distribute the interest under the AESO's proposed approach (columns 4 and 6). The net interest impact (column 7)

totaling \$2.06 million in the revised schedule is the same as actual interest expense (column 5), with the other entries (totaling charges and credits of \$2.36 million) netting to zero reflecting the redistribution of interest between accounting and production months.

Note that the annual totals in column 7 of Schedule ASBG-PGA.AESO-004 (b-c) reconcile to the interest expense amounts included in the AESO's 2004-2007 deferral account reconciliation application.

- (d) The amount of the difference between the forecast and actual interest expense does not represent an actual benefit of a positive deferral account balance but simply reflects a variance in the assumptions that the AESO used to forecast annual interest. 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.

Reference: Attachment to AESO Response to ASBG-PGA-003(a) Bank Debt

Preamble: AESO Debt Balance during the month and associated interest expense. The AESO effective interest rate expense appears to be less than the AESO proposed monthly interest rates.

Request:

- (a) Please provide a monthly reconciliation for 2004 - 2008 between the effective AESO interest rate for the monthly actual interest expense and the proposed monthly interest rates for the redistribution of interest proposal.
- (b) The AESO indicates that monthly debt balances are not associated with the specific business functions of transmission, energy market or load settlement. For large capital projects such as the control centre please provide supporting details of the debt allocations amongst the business functions and whether DTS customers are responsible for 100% of the transmission related debt interest expenses.

Response:

- (a) Please refer to columns 5 and 6 of attached Schedule ASBG-PGA.AESO-005 (a).

The amounts in column 5 for the 'increase to interest expense for redistribution to production months' has been calculated for the purposes of the interest redistribution using the following two principles which don't represent actual interest costs:

- (i) a rate equal to the Bank of Canada bank rate plus 1½% consistent with AUC Rule 023 but not necessarily representative of the AESO's actual cost of borrowing, and
 - (ii) the average monthly deferral balances which affect mid-term working capital requirements but do not include short-term working capital requirements for the AESO's transmission function.
- (b) Actual interest costs incurred by the AESO are allocated to its transmission, energy market, and load settlement business functions based upon the items that give rise to the interest costs, such as the net book value of capital assets and considerations specific to each business function. For large capital projects relevant to the AESO's 2004-2007 application, capital costs were allocated as follows:

Large Capital Projects	Allocation to Business Function		
	Transmission	Energy Market	Load Settlement
System Coordination Centre	67%	33%	–
Compliance Data and Monitoring System	5%	5%	90%

For the transmission function, interest expense is included in general and administrative costs, which are allocated in the same manner as interconnection charges, namely:

- 58% to DTS customers and 42% to STS customers up to 2005, and
- 100% to DTS customers for 2006 and later years.



Reference: General, AESO interest rate proposal.

Preamble: Impact of losses on the AESO energy market business function

Request:

The AESO interest rate proposal emanates at least in part from metering errors that caused significant adjustments for transmission losses. Please discuss the potential impacts on the energy market during the period of incorrect metering and associated losses calculations. For instance did the incorrect metering cause any dispatch changes that would influence pool prices and potentially increase energy costs for DTS customers and correspondingly increase energy revenues for STS customers.

Response:

Please refer to Information Response TCE.AESO-007 (d-f) for the financial implications of the metering adjustments. There are no real-time or operational impacts of metering adjustments.

Reference: AESO Presentation “2004-2007 Deferral Account Reconciliation Application Technical Meeting” – June 16, 2008

Request:

Please provide a copy of the AESO’s PowerPoint presentation titled “2004-2007 Deferral Account Reconciliation Application Technical Meeting” presented to stakeholders on June 16th, 2008.

Response:

Please see Attachment TCE.AESO-003.

The presentation was also posted on the AESO web site on June 16, 2008, and is available at www.aeso.ca by following the path Tariff ► Current Applications ► 2004-2007 Deferral Account Reconciliation ► Technical Meeting ► 2008-06-16 AESO 2004-2007 DAR - AESO Presentation.

Reference: AESO Application No. 1574594, Schedule TCE.AESO-002 (a)

Preamble: TransCanada wishes to obtain greater detail regarding interest calculations for metering-related adjustments which impact losses.

Request:

- (a) Please confirm that all the loss adjustments that form part of the AESO's current application are included in the calculations in the referenced Schedule. If not, please provide a full explanation including the dates, amounts and details of any additional loss adjustments. Please revise the Schedule to include those amounts, if applicable.
- (b) Please revise the above referenced Schedule to provide a year by year calculation of interest for each of the following adjustments:
 - (i) "One-time Metering adjustment with losses impact" of \$24.2 million;
 - (ii) "Metering adjustments with losses impact" of \$3.8 and \$1.4 million;
 - (iii) "TA Adjustments to meter volumes" of \$6.0 million; and
 - (iv) Any new amounts from (a)using AUC Rule 023 interest rates from the date that the volumes were incorrectly charged to customers until June 2nd, 2008. Please include in this calculation a breakdown between STS and DTS customer classes. Provide the response in Excel spreadsheet format with all underlying details of the calculation provided.
- (c) Please refer to the schedule from (b) and provide a calculation that, on a year by year basis, deducts interest amounts that have already been calculated and refunded on an interim basis in the current application.
- (d) Assuming the full amounts of interest calculated in (c) were awarded by the Commission, please provide a Schedule in the form of Appendix H-2 from the current application which allocates the additional interest amounts (charges and credits) by customer and by year.

Response:

- (a) Not confirmed. All loss adjustments were provided in Appendix F-2 to the AESO's 2004-2007 Deferral Account Reconciliation Application filed on June 2, 2008. Schedule TCE.AESO-002 (a) contains only those adjustments for which TransCanada had requested information, consisting of those adjustments mentioned in variance explanations in the application or discussed in technical meetings on the application.

Attached Schedule TCE.AESO-004 (a) summarizes all loss adjustments and amounts from Appendix F-2. The totals by production year in Schedule TCE.AESO-004 (a) reconcile (subject to rounding differences) to the totals in Appendix F-2 and to the recorded costs for losses in Tables 5-1 (page 60), 6-1 (page 74), 7-2 (page 94), and 8-1 (page 103) in the application.

Please note that item 6 in Schedule TCE.AESO-004 (a) relates to the same metering adjustment as item 1. The item 1 amounts were prior period adjustments and were significant contributors to 2003 and 2002 losses cost variances. The item 6 amount was addressed within the 2004 production year and was not considered a contributing factor to the 2004 losses cost variance. The total amount attributable to the one-time metering adjustment relating to items 1 and 6 is therefore \$31.8 million — \$24.2 million identified as prior period adjustments in 2003, 2002, and 2001, and \$7.6 million as a current period adjustment in 2004 which was not specifically discussed in the application.

- (b) As explained in the AESO's preamble to its response to Information Request TCE.AESO-002, the AESO does not consider that the calculations requested by TransCanada represent either a fair, reasonable, or appropriate determination of interest, for the reasons provided in section 2.3 (pages 17-21) of the AESO's 2004-2007 deferral account reconciliation and for the additional reasons set out in Information Response TCE.AESO-002. 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 that approach to determining interest. The approach supported by the AESO is as described and included in its application.

The AESO considers that TransCanada's request differs from the approach proposed by the AESO in two fundamental aspects. TransCanada suggests:

- (i) interest be calculated from the date an error occurred to the date of financial settlement of the adjustment correcting that error, and
- (ii) interest be calculated on the total amount of the adjustment correcting the error.

The AESO disagrees with both of these suggestions.

As noted in the second comment in the AESO's preamble to Information Response TCE.AESO-002, it is the AESO's practice to neither charge nor refund interest on amounts owing on restatements of account arising from metering adjustments. The AESO understands this to be consistent with the practice of distribution utilities in Alberta with respect to bill adjustments, and to be consistent with account restatements which regularly happen in interim and final settlement in the energy market. The AESO further considers such a practice to be appropriate for correction of errors where neither negligence nor willful misconduct is involved. Finally, the AESO considers that a change to a long-standing practice should not be implemented retroactively, but should first allow opportunity for debate among all potentially-affected parties and, if changed as a result, implemented on a go-forward basis only.

As noted in the third comment in the AESO's preamble to Information Response TCE.AESO-002, it is also inappropriate to calculate interest on the total amount of the adjustment. The AESO's deferral account adjustment riders are intended to allow deferral account shortfalls and surpluses to be addressed through charges or credits on

customer bills in the following calendar quarter. The “unwinding” of those charges in a deferral account reconciliation should not become an opportunity to retroactively add interest to the shortfalls or surpluses managed through those riders. The AESO notes that interest has not been added to similar adjustment amounts in previous AESO deferral account reconciliations. As proposed in the AESO’s application, it is appropriate to redistribute interest when deferral account balances consistently exist after implementation of the riders, but only on the deferral account balances themselves, not on the total amount of adjustments which may have been addressed in part through use of deferral account adjustment rider.

Although the AESO disagrees with the approach proposed by TransCanada, the AESO provides the requested calculations in attached Schedules TCE.AESO-004 (b)-A, -B, -C, and -D. The AESO notes that calculations have been provided on a production year basis. In the event the AESO is directed to redistribute interest using the approach proposed by TransCanada, interest will be calculated on a more detailed production month basis.

All interest related to the losses adjustment detailed in the schedules is attributed to STS customers, as the cost of losses is recovered in its entirety from STS customers. The associated recovery of that interest is from both DTS and STS customers, consistent with the allocation of interest expense in the same manner as interconnection charges as part of the AESO’s general and administrative costs.

- (c) Please see attached Schedule TCE.AESO-004 (c) for the requested calculation.
- (d) The AESO is unable to provide the allocation of the additional interest amounts by customer and by year with reasonable effort. However, the AESO offers the following comments based on the incremental interest calculated in Schedule TCE.AESO-004 (c).

TransCanada’s proposed approach would result in DTS customers paying about an additional \$9.4 million of interest expense, beyond the \$2.9 million resulting from the redistribution of interest in the AESO’s 2004-2007 application. The additional interest expense would be charged to DTS customers primarily in the years 2004-2008. The additional interest expense would be allocated to DTS customers in each year in proportions to each customer’s interconnection charge revenue, and would result in over 90% of the additional charges (about \$9 million) being allocated to distribution utilities with the balance being allocated to AESO DTS direct connect customers.

For comparison, a net balance of about \$17.6 million was calculated to be refunded to DTS customers in the AESO’s 2004-2007 application — about \$19.2 million refunded to distribution utilities and about \$1.6 million charged to DTS direct connect customers. The AESO estimates that the additional interest charges resulting from TransCanada’s proposed approach would reduce the refund to distribution utilities by about 47% to about \$10 million, and would increase the charge to DTS direct connect customers by about 25% to about \$2 million. Impacts on individual DTS customers would vary, and cannot be determined by the AESO without significant additional effort.

TransCanada’s proposed approach would result in STS customers being refunded about an additional \$9.4 million of net interest, beyond the \$2.9 million resulting from the redistribution of interest in the AESO’s 2004-2007 application. The additional net interest amount would be refunded to STS customers primarily in the years 2001-2004, and

would be allocated to STS customers in each year primarily in proportion to each customer's hourly production multiplied by pool price.

For comparison, a net balance of about \$33.6 million was calculated to be refunded to STS customers in the AESO's 2004-2007 application. The additional interest refund resulting from TransCanada's proposed approach would increase the refund to STS customers by about 28% to about \$43 million. Impacts on individual STS customers would vary, and cannot be determined by the AESO without significant additional effort.

Reference: AESO Application No. 1574594, Schedule TCE.AESO-002 (a)

Preamble: TransCanada wishes to understand the underlying events which led to the requirement for a metering-related adjustment.

Request:

Please provide the following details of the metering-related adjustments referenced in question 4(b):

- (a) The amount of energy that was incorrectly measured by MWh by month (or by year if the month is not known);
- (b) The location(s) in the province where the error(s) occurred;
- (c) The cause(s) of the error(s);
- (d) The party responsible for each error(s). If more than one party was responsible, please identify the party or parties responsible for each aspect of the metering-related error(s); and
- (e) If the AESO will not identify the party or parties identified in (iv) by name, please identify them using the identifiers provided in Appendix H-2 if they are AESO customers and, if not an AESO customer, identify if they are a transmission facility owner, distribution facility owner or other entity.

Response:

- (a-e) The AESO provides some additional information on the metering-related adjustment in attached Schedule TCE.AESO-005 (a-e), which may be helpful to TransCanada's understanding of the adjustments.

However, the AESO has not provided all of the specific information requested in parts (a-b) and (d-e) as such information could allow the identification of individual customers for whom data has been provided anonymously in the appendices to the AESO's 2004-2007 application, or other information which is considered confidential by the AESO.

Reference: AESO Application No. 1574594, Schedule TCE.AESO-002 (a)

Preamble: TransCanada wishes to understand the underlying events which led to the requirement for a metering adjustment.

Request:

- (a) With respect to the metering-related error(s) identified in question 5(a) that relate to the adjustments referred to in question 4(b), please provide the names of the AESO customer(s) who received a financial benefit by virtue of lower charges. For each of these customers, please provide the net difference between the amount they were charged and the amount that they should have been charged if the meter error(s) had not occurred.
- (b) If the AESO will not identify the customer(s) identified in (a) by name for confidentiality reasons, please identify them using the identifiers provided in Appendix H-2. If they are a DTS customer(s), please identify whether they are a direct connect DTS customer(s) or served by a Distribution Utility.

Response:

- (a-b) The AESO provides some additional information on the metering-related adjustments in Schedule TCE.AESO-005 (a-e) provided in response to Information Request TCE.AESO-005 (a-e), which may be helpful to TransCanada's understanding of the adjustments.

However, the AESO declines to provide all of the specific information requested in parts (a-b) as such information could allow the identification of individual customers for whom data has been provided anonymously in the appendices to the AESO's 2004-2007 application, or other information which is considered confidential by the AESO.

Reference: AESO Application No. 1574594, Schedule TCE.AESO-002 (a)

Preamble: TransCanada wishes to understand the underlying events which led to the requirement for a metering adjustment.

Request:

- (a) Please identify who originally identified the metering-related error(s) referred to in 5(a)
- (b) Please identify when the AESO first learned of the metering-related error(s). If the Power Pool of Alberta learned of the error(s) before the AESO, please indicate when that occurred.
- (c) Please describe the steps taken by the AESO and the Power Pool of Alberta (if applicable) after they learned of the metering-related error(s).
- (d) Please confirm that the funds arising from metering-related error(s) were held in the AESO Settlement System before being transferred to the AESO Transmission function.
- (e) If the response to question (d) is yes:
 - (i) Explain the process for the funds being transferred from the AESO settlement system to the AESO Transmission function;
 - (ii) Identify when the transfers occurred;
 - (iii) Describe the trigger for the transfers;
 - (iv) Provide the amount of those funds and the length of time they were held in the AESO Settlement System;
 - (v) If the funds were held in the Settlement System for longer than 3 months, please provide an explanation; and
 - (vi) Confirm that the date of this transfer from the AESO Settlement System to the AESO Transmission function represents the date from which the AESO calculated the interest in the current application. If not confirmed, please explain fully.
- (f) If the response to (d) is no, or the funds were held in another location and then moved to the AESO Settlement System:
 - (i) Explain where those funds were held prior to being transferred to the AESO Transmission function or the AESO Settlement System;

- (ii) Identify the amount of the funds;
- (iii) Explain how the funds were managed; and
- (iv) Explain when and how the funds came to the AESO.

Response:

- (a-c) Please refer to Schedule TCE.AESO-005 (a-e) attached to Information Response TCE.AESO-005 (a-e).
- (d-f) Not confirmed.

On a monthly basis, the AESO completes the energy market settlement process which facilitates the collection of funds from consumers of energy (load) and pays funds to providers of energy (generators). The difference between these financial transfers is the cost of transmission line losses which is paid by transmission customers (via the AESO's transmission function) into the energy market. This transfer of funds for line losses occurs on a monthly basis (similar to other transmission cost payments) and is collected from transmission customers through the tariff charges.

In circumstances similar to what has been discussed in these Information Requests, when there is missing or erroneous meter volume data for generation or load used in the calculation of the energy market settlement, the offset to an energy market participant's incorrect billing is an incorrect billing to the transmission function for line losses. When the corrected meter volume data is received by the AESO for energy market settlement purposes and included on a Pool Statement, the offset will be to correct the cost of transmission line losses (either an additional charge or a refund).

During the period from initial energy market settlement to when the billing is corrected, the funds are held by either the energy market participant or the transmission customers. An undercharge of meter volumes for an energy market load participant or an overpayment to an energy market generation participant causes an overcharge to transmission customers, and conversely. The initial settlement that gives rise to an incorrect funds transfer is based on the most current, and what was then believed to be accurate, metered volume information which was subsequently identified as incorrect. The AESO is not in receipt of funds during the period from initial energy market settlement to when the billing is corrected through the energy market settlement process.

In the circumstance of the one-time metering adjustment of \$31.8 million which has been identified in the application and previous information requests, the energy market participant was overpaid for generation and held these funds until the meter volume correction was identified and made. When the error was corrected, the funds were transferred from the energy market participant to the transmission function and at that time, awaited subsequent distribution to transmission customers. In this circumstance, the AESO held a portion of the funds from when they were received from the energy market participant in May 2005 until they were distributed to transmission customers in June 2008 with the interim settlement of the AESO's 2004-2007 Deferral Account Reconciliation Application. During the period that the AESO held these funds, they were used to reduce debt balances that would otherwise have been required to fund

transmission operations (such as deferral account shortfalls, capital acquisitions, and working capital deficiencies). The AESO held these funds until filing its application to ensure the distribution to transmission customers was based on a full reconciliation of deferral balances, due primarily to the significance of the adjustment amount.

In other circumstances, such as the various Transmission Administrator (TA) Adjustments, the funds were included in the quarterly Rider C estimates for immediate distribution to transmission customers.



Reference: AESO Application No. 1574594, Section 1-Application, page 6, lines 9-11 (a)

Request:

Please confirm that TransCanada has worked with the AESO to expedite the deferral account reconciliation process for at least two years. If not confirmed, please provide a full explanation.

Response:

TransCanada has actively participated in the AESO's stakeholder consultation on deferral account rider methodology, reconciliation process, and applications since those consultations (as summarized in Appendix A to the 2004-2007 Application) began in late 2004.

Reference: AESO Application No. 1574594, TCE.AESO-001 (a-b); TCE-AESO-002(b-c)

Preamble: In TCE.AESO-001 (a-b), the AESO states: "The Financial Obligation Date was the date on which an underpayment or overpayment was determined to exist and specifically quantified; until such date no underpayment or overpayment to the AESO existed." The AESO gave AUC Decisions as examples for several adjustments in Schedule TCE.AESO-002(b-c).

Request:

- (a) Please confirm that the metering-related adjustments referred to in question 4(b) do not arise due to a Board or AUC decision but are a result of adjustments required by either AESO rules or business practices. If not confirmed, please explain fully.
- (b) Please confirm that in the deferral account reconciliation process, it is possible for one group of customers to owe another group of customers a significant amount of money over an extended period yet the AESO has no deferral account balance in aggregate (i.e. the AESO has no working capital deficiency or surplus). If not confirmed, please explain fully.

Response:

- (a) The metering-related adjustments referred to in TCE.AESO-004 (b) did not arise due to an EUB or AUC decision. Those adjustments result from the AESO's obligations under legislation, primarily:
 - (i) requirements in the *Electric Utilities Act* that the AESO "carry out financial settlement for all electric energy exchanged through the power pool" (section 17(d)) and "administer load settlement in accordance with the rules..." (section 24.1(2));
 - (ii) the correction of errors through the Pre-Final Error Corrections (PFEC) process as contemplated in section 5.2 of the *Settlement System Code*, and through the Post Final Adjustment Mechanism (PRAM) process as contemplated in section 5.3 of the *Settlement System Code*; and
 - (iii) requirements in the *Electricity and Gas Inspection Act (Canada)* that, with respect to meter-related errors, a party "is liable for the amount of the charge for electricity or gas determined on the basis of the full error and the time for which the error is...deemed or determined to have existed." (section 24(5))
- (b) Technically speaking, a customer or group of customers never owes another customer or group of customers any amount of money due to the deferral account reconciliation process. All amounts are owed to or from the AESO.

The AESO can agree with the concept of the question in that as a result of the deferral account reconciliation process one customer or group of customers may owe the AESO a significant amount of money while another customer or group of customers may be due a refund of a significant amount of money, even though the AESO has no deferral account balance in aggregate. However, the AESO does not agree that such amounts would generally be owed over an extended period of time.

As discussed in Information Responses TCE.AESO-001 (a-b) and TCE.AESO-002 (1-2), until the deferral account reconciliation is approved, no customers of the AESO owe or are owed any amounts of money beyond those included on their monthly statements of account or otherwise invoiced. It is only **after** the reconciliation is approved and related statements of account are issued that amounts become due and payable to or from the AESO. Such amounts are generally settled within a few months of a deferral account reconciliation being approved, and do not remain outstanding over an extended period.