2004-2007 Deferral Account Reconciliation Application Technical Meeting
John Martin, Regulatory
Carol Moline and Roxanne Moeskops, Accounting
June 16, 2008 — Calgary

Agenda

• History and contents of application (slides 4-7)
• Background (slides 8-12)
• Changes from original 2004-2005 application (including redistribution of interest) (slides 13-18)
• Summary of deferral accounts (slides 19-22)
• Deferral reporting program (slides 23-24)
• Variance analysis (slides 25-28)
• Deferral account reconciliation (slides 29-31)
• Allocation to customers (slides 32-39)
• Next steps and discussion (slides 40-43)
Meeting Objectives

• Familiarity with application contents
• Understanding of changes from original 2004-2005 deferral account reconciliation application
• Understanding of how deferral account balances were determined and how balances were allocated to customers
• Expectations for balance of this proceeding and for future deferral account applications
• Responses to questions about application and methodology

2004-2007 Deferral Account Reconciliation Application

• On December 1, 2007, the AESO filed a deferral account reconciliation application for 2004 and 2005, including:
  – a second reconciliation for 2003, and
  – reconciliation of adjustments for 1999 to 2002
• In December 2007 and early 2008 several large adjustments significantly increased the outstanding balance in the AESO’s deferral account
  – $51.1 million surplus balance as of March 31, 2008
• On March 18, 2008, the AESO proposed suspending the 2004-2005 application and filing an extended 2004-2007 application
• The AUC approved the AESO’s proposal on April 16
On June 2, 2008, the AESO filed a deferral account reconciliation application for 2004, 2005, 2006, and 2007, including:

- a second reconciliation for 2003, and
- reconciliation of adjustments for 1999 to 2002

The application included all transactions accounted for up to March 31, 2008 that were related to 2007 and prior years

The AESO also requested interim approval for immediate settlement of deferral account amounts with customers

What Was Filed in the Application?

1. Background and specific requests for approval
2. Summary of process
7. Second reconciliation of 2003 deferral account
8. Adjustments to 1999-2002 deferral accounts
9-10. Allocating, refunding, and collecting deferral account amounts
11. Responses to directions from prior decisions
What Was Filed in the Appendices?

A Summary of 2004-2008 stakeholder consultation
B-C Reconciliation to income statements and balance sheets
D AESO annual reports
E Miscellaneous reconciliations
F Line loss charges
G Interest redistribution
H Summary of customer deferral account balances
I Guide to report layouts
J-L Detailed allocations to customers by month and year
M-N Comparisons to 2004-2005 application and IRs

Background

- 1999-2000 deferral account application
  - Filed in October 2000; no formal decision
- 2000-2002 deferral account application
  - Filed in September 2003; Decision 2003-099 issued December 2003
  - Losses by production month; other costs by accounting month
- 2003 deferral account application
  - Filed in June 2004; Decision 2005-034 issued April 2005
  - All costs on production month basis
  - Prior year costs allocated on current year revenue
Background (cont’d)

Pages 6-9

• Decisions 2003-099 and 2005-034 included several directions
  – To evaluate a prospective rider methodology
  – To propose a schedule for earlier reconciliations
  – To propose a methodology to address prior year adjustments
  – To improve data quality and accuracy of process

• Stakeholder consultation on deferral accounts conducted from November 2004 to December 2005
  – Generally, accuracy should be goal rather than speed
  – Second and third reconciliations would result in greater accuracy

Background (cont’d)

Pages 6-9

• 2004 deferral account application initially proposed for December 2005

• Delays occurred
  – Because of complexity of multi-year reconciliations
  – To include 2005 deferral account reconciliation
  – To develop software program to automate process
  – Due to other priorities and resource constraints

• 2004-2005 deferral account application (including 2003 second reconciliation) filed December 2007

• The application was prepared using a software program developed by the AESO to handle the large quantity of data involved in multi-year deferral account reconciliations
**Background (cont’d)**

- Material increases in deferral account balances due to additional prior period amounts refunded to AESO at end of 2007 and in early 2008
- AESO consulted with stakeholders on options, and decided to apply to suspend the original 2004-2005 application and file an extended 2004-2007 application
  - AUC approved proposal on April 16, 2008
- AESO also requested approval for immediate financial settlement with customers on interim refundable basis

**Immediate Interim Settlement**

- Net total 1999-2007 deferral account balances of $51.1 million based on transactions to March 31, 2008
- Full review process would likely not conclude until late 2008 or early 2009
- Interim refundable settlement would provide prompt and accurate refund of outstanding balances to customers
  - $51.1 million is probable and material
  - No material concerns raised with methodology to date
  - Objections raised to redistribution of interest but represents only 6% of $51.1 million balance
- Interim approval by mid-July would allow settlement on invoices issued in July
Changes From Original Application

Pages 13-15

• Adds first reconciliation for 2007
• Adds first reconciliation for 2006
• Includes prior period adjustments that occurred from July 31, 2007 to March 31, 2008
  - $6.2 million refund related to TA Adjustments
  - $16.1 million refund relating to ATCO Electric tax liability
  - $2.1 million charge related to Rainbow Lake TMR compensation
• Excludes losses for 2007 and 2006
  - Losses reconciled through Rider E since January 1, 2006 in accordance with Transmission Regulation
• Excludes any adjustments after March 31, 2008

Changes From Original Application (cont’d) Pages 13-15

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Deferral Account Characteristics

Table 2-1, page 17

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<th>Deferral Year</th>
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¹ All costs reconciled on accounting basis except losses on production basis

Redistribution of Interest

Pages 17-21

- Deferral account balance adds to (in case of shortfall) or reduces (in case of surplus) AESO bank debt balances
- Deferral account balance increases (in case of shortfall) or decreases (in case of surplus) interest expense
- Deferral account balances during 2006, 2005, and 2004 averaged $11.3 million surplus, and was a surplus for 29 months and a shortfall for only 7 months
- Existence of material surpluses for extended periods of time results in interest expense being attributed to inappropriate months, and to inappropriate rate components
AESO has therefore redistributed interest amounts between months and between rate components.

Redistribution of interest does not change overall deferral account balance.

Neither misalignment in time or misalignment in rate component would be material if deferral account balances averaged near zero on a forecast basis, or if deferral account balances were subject to a reconciliation application shortly after year-end.

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<td>Total</td>
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## Summary of Deferral Accounts

### Table 2-4, page 22

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<td>Operating Reserve</td>
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<td><strong>Total Revenue</strong></td>
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<td>$700.6</td>
<td>$831.8</td>
<td>$757.8</td>
<td>$850.1</td>
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<td>Wires</td>
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<td>($704.3)</td>
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<td>Surplus (Shortfall)</td>
<td>($56.1)</td>
<td>($3.7)</td>
<td>($19.6)</td>
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## Summary of Deferral Accounts

### After Rider C

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<td>Total Revenue</td>
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<td>$700.6</td>
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<tr>
<td>Total Costs Paid</td>
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<td>Surplus (Shortfall)</td>
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<td>($3.7)</td>
<td>($19.6)</td>
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<td>Rider C Collection</td>
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Summary of Adjustments

Table 2-4, page 22

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<td>Operating Reserve</td>
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<td>Voltage Control</td>
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<td>Other System Support</td>
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<td><strong>Total Revenue</strong></td>
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Significant Prior Period Charges (Refunds) Table 2-4, page 22

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<td>Redistribution of interest to appropriate production months and rate components (pages 17-21)</td>
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<td>($2.3)</td>
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<tr>
<td>ATCO Electric tax liability refiling approved in Decision 2007-104 (pages 31-32)</td>
<td>($16.1)</td>
<td>–</td>
<td>($2.7)</td>
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<td>Compensation for TMR services provided by Rainbow Lake generating units from January 2006 to February 2008 (page 36)</td>
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<td>$0.9</td>
<td>–</td>
<td>–</td>
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<td>Release of TA Adjustments reflecting 2001-2005 changes to point-of-delivery meter volumes (pages 56-57)</td>
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<td>($0.5)</td>
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Deferral Reporting System
Pages 8-9

Deferral Reporting Controls
Pages 25-26

- Input controls (A)
  - Data transferred into database reconciles to source data
  - All accounting values are assigned to production months (value rejected if production month not entered)

- Process controls (B)
  - Detailed report totals reconcile to summary reports
  - Annual deferral account balances (revenues and costs) reconcile to audited financial statements
  - Customer revenues and loss volumes reconcile to billing data
  - Inter-year adjustments for production month reporting net to zero
  - Calculations embedded in reporting system have been manually tested and verified in detail
Cost Variances
Pages 28-40 for 2007

- All costs recorded in revenue requirement categories in General Tariff Application approved forecast
  - Interest expense redistributed to categories which gave rise to deferral account balance
- All costs assigned to production months in accounting system
  - AESO “Own Costs” assigned to months in which they occur
- Variances determined as differences between approved forecast and actual costs by revenue requirement category
- Deferral account application is proper venue to test the AESO’s cost prudency

Cost Variances (cont’d)
Pages 28-40 for 2007

- Variance explanations provided for any variance greater than ±$4.0 million for 2007
  - Or greater than ±10% of forecast and greater than ±$0.4 million
  - Variance explanation threshold ±$3.0 million or (±10% and ±$0.3 million) for 2006, 2005, and 2004, based on lower revenue requirement
  - Thresholds reduced by half to ±$1.5 million or (±5% and ±$0.15 million) for 2003 second reconciliation
- Detailed questions on variance analysis should be addressed through information request process
Revenue Variances  
Pages 40-41 for 2007  

- All revenue recorded by rate and rate component  
- All “base rate” revenues assigned to production months in billing system  
- Variances determined as differences between forecast “base rate” revenue and actual revenue by rate and rate component

Deferral Account Balance  
Pages 41-42 for 2007  

- Deferral account balance is actual costs less actual revenue  
  - Equivalent to net of cost variances less revenue variances as long as forecast costs equaled forecast revenues, which is not true for 2007  
- Rider C collected or refunded amounts to maintain deferral account balances at reasonable levels  
- Deferral account balance allocated to customers before Rider C collections or refunds included, effectively “unwinding” Rider C

- Similar information provided for 2006, 2005, and 2004
- Similar information provided for 2003, but only considered variances arising subsequent to first reconciliation as refiled in December 2004
  - Threshold for variance explanations reduced by half
- Adjustments to 2003 deferral accounts included:
  - $1.7 million refund for interest redistribution (page 20)
  - $10.8 million refund for ATCO tax liability refiling (pages 31-32)
  - $0.5 million refund for TA Adjustments (pages 66-67)
  - $16.3 million refund for losses adjustments (pages 97-98)

Deferral Account Adjustments for 1999 to 2002 Pages 102-106

- Only considered adjustments to revenues and costs for 1999-2002, not full re-reconciliation
- Adjustments for 1999 and 2000 were very small, and simply added to adjustments for 2001 for reconciliation and allocation purposes
- No specific threshold for variance explanations established
- Adjustments to 2002 deferral accounts included:
  - $2.3 million refund for interest redistribution (page 20)
  - $1.0 million refund for TA Adjustments (pages 66-67)
  - $13.0 million refund for losses adjustments (page 97)
  - $16.7 million refund for TFO decisions (page 105)
Deferral Account Adjustments for 1999 to 2002 (cont’d) Pages 102-106

- Adjustments to 2001 deferral accounts included:
  – $2.0 million refund for TA Adjustments (pages 66-67)
  – $0.1 million refund for losses adjustments (page 97)
  – $7.9 million refund for TFO decisions (page 103)

Allocation to Customers

- Deferral account balances allocated to customers by rate and rate component
- For wires, ancillary services, other industry, and general and administration costs, allocation based on revenue
- For losses, allocation based on volumes times pool price
- Rider C amounts applied after deferral account balances allocated to customers
- Rider C amounts charged or refunded to customers over the period are applied on an individual customer basis to determine the net amount to be refunded to or collected from the customer
Allocation to Customers (cont’d)

Pages 107-109 and Appendices

- Pre-2003 adjustments allocated using final allocators approved by AUC for 2001 and 2002
- Detailed allocation provided in 1,096 pages of appendices
- Customers and generators assigned random numbers in each year to protect confidentiality
  - Number codes have been provided to each customer
- Similar information available on request in Excel format at settlement point level, for customers with multiple settlement points

Allocation to Customers (cont’d)

Pages 107-109 and Appendices

- Where a System Access Service Agreement is assigned (through Assignment and Novation), the deferral account allocation is to the account of the assignee
  - Effective in 2002 and later years
  - Assignees have been determined as of the March 31, 2008 data cut-off date
- GST applied at current rate of 5%
### DTS Customer Results

#### Appendices

**Graph: Net Refund (Charge), $000,000**

- **DFOs**
- **Direct Connects**

### DTS Customer Results (cont'd)

**Appendices**

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<tr>
<th>Refund/Charge Range</th>
<th>Number of DTS Customers</th>
<th>% of Total DTS Customers</th>
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<tr>
<td>Charges of $0.0 to $0.4 million</td>
<td>34</td>
<td>69%</td>
</tr>
<tr>
<td>Refunds of $0.0 to $0.5 million</td>
<td>11</td>
<td>23%</td>
</tr>
<tr>
<td>Refunds of $2.7 to $3.5 million</td>
<td>3</td>
<td>6%</td>
</tr>
<tr>
<td>Refund of $9.3 million</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
STS Customer Results

Appendices

### Net Refund (Charge), $000

<table>
<thead>
<tr>
<th>Net Refund (Charge), $000</th>
<th>Direct Connects</th>
</tr>
</thead>
<tbody>
<tr>
<td>($2)</td>
<td></td>
</tr>
<tr>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>$2</td>
<td></td>
</tr>
<tr>
<td>$4</td>
<td></td>
</tr>
<tr>
<td>$6</td>
<td></td>
</tr>
<tr>
<td>$8</td>
<td></td>
</tr>
<tr>
<td>$10</td>
<td></td>
</tr>
</tbody>
</table>

### STS Customer Results (cont’d)

#### Number of STS Customers and % of Total STS Customers

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of STS Customers</th>
<th>% of Total STS Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges of $0.0 to $0.02 million</td>
<td>2</td>
<td>5%</td>
</tr>
<tr>
<td>Refunds of $0.0 to $0.5 million</td>
<td>26</td>
<td>63%</td>
</tr>
<tr>
<td>Refunds of $0.5 to $1.0 million</td>
<td>5</td>
<td>12%</td>
</tr>
<tr>
<td>Refunds of $1.0 to $4.3 million</td>
<td>7</td>
<td>17%</td>
</tr>
<tr>
<td>Refund of $6.8 million</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100%</td>
</tr>
</tbody>
</table>
Refunding and Collecting
Pages 110-111

- Settlement through one-time payment and collection
  - In case of financial burden, 3-month payment option available
- AESO proposes interim refundable settlement as soon as possible
  - Settlement in July if approval received by mid-July
  - Subject to adjustment in final decision on deferral account reconciliation application, expected in late 2008 or early 2009
  - AESO suggests such adjustments be included in 2008 deferral account reconciliation application, to be filed in second quarter of 2009
- Suggest immediate interim settlement also apply to future deferral account reconciliation applications

Application Review Process

- Technical meeting on Monday, June 16, 2008
- Statements of intent to participate by Friday, June 20
- Information requests to AESO by Monday, June 30
- IR responses from AESO by Wednesday, July 23
- No party requested an oral hearing for 2004-2005 application
  - Argument potentially in early August 2008
  - Reply argument potentially in late August 2008
  - Decision potentially in late November 2008
Future Deferral Account Applications

- Minimal effect on load customers from changes to transmission billing volumes between initial, interim, and final settlements
- AESO proposes to prepare future deferral account reconciliations after initial settlement of December volumes
- File 2008 and 2009 deferral account reconciliations in second quarters of 2009 and 2010 respectively
- Consult with stakeholders in early 2009 on when full reconciliations for a year may be permanently discontinued and whether a prospective methodology could be implemented

Discussion and Questions

- Appendix E includes reconciliations of inter-year adjustments, Rider C, interconnection charges, and other revenue
- Appendix G provides information on interest redistribution, including calculation example
- Appendix I provides a guide to report layouts and calculations for customer allocations
For More Information

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- Carol Moline
  Director, Accounting & Treasury
  Phone (403) 539-2504
  E-mail carol.moline@aeso.ca

- Application on AESO web site at www.aeso.ca
  Tariff ▶ Current Applications ▶ 2004-2007 Deferral Account Reconciliation