





<p>2004-2007 Deferral Account Reconciliation Application Technical Meeting</p> <p>John Martin, Regulatory Carol Moline and Roxanne Moeskops, Accounting June 16, 2008 — Calgary</p>	<p>Reliable Power</p> <p>Reliable Markets</p> <p>Reliable People</p>
 	

<p>Agenda</p>	
<ul style="list-style-type: none">• 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

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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

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2004-2007 Deferral Account Reconciliation Application (cont'd)



- 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

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What Was Filed in the Application?

Page 10



- 1 Background and specific requests for approval
- 2 Summary of process
- 3-6 First reconciliations of 2007, 2006, 2005, and 2004 deferral accounts
- 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

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What Was Filed in the Appendices?

Page 11



- 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

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Background

Pages 6-9



- 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

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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

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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

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Background (cont'd)

Pages 6-9



- 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
- 2004-2007 deferral account application (including 2003 second reconciliation and 1999-2002 adjustments) filed June 2, 2008
- AESO also requested approval for immediate financial settlement with customers on interim refundable basis

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Immediate Interim Settlement

Pages 9-10




- 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

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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

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Changes From Original Application

(cont'd) Pages 13-15




Net Surplus (Shortfall) Differences Since Original 2004-2005 Application, \$ 000 000

Production Year	2004-2005 Application Table 2-2	2004-2007 Application Table 2-4	Difference	TA Adjust-ments	ATCO Tax Liability	Rainbow Lake TMR
1999-2001	7.8	9.8	2.0	2.0	–	–
2002	29.0	32.3	3.3	1.0	–	–
2003	(11.0)	2.0	13.0	0.5	10.8	–
2004	(4.1)	(5.3)	(1.2)	(3.3)	(0.3)	–
2005	(6.8)	(0.9)	5.9	5.9	2.5	–
2006	–	11.3	11.3	–	0.4	(0.9)
2007	–	2.0	2.0	–	2.7	(1.2)
Net	15.0	51.1	36.1	6.2	16.1	(2.1)

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Deferral Account Characteristics


Table 2-1, page 17



Deferral Year	Reconciliation Basis	Adjustment Basis	Attribution Period	Allocation Year
2007	production	—	month	2007
2006	production	—	month	2006
2005	production	—	month	2005
2004	production	—	month	2004
2003	production	—	month	2003
2002	accounting ¹	production	month	2002
2001	accounting ¹	production	year	2001
2000	accounting ¹	production	year	2001
1999	accounting	production	year	2001

¹ All costs reconciled on accounting basis except losses on production basis

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- ### 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
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Redistribution of Interest (cont'd)

Pages 17-21



- 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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Redistribution of Interest (cont'd)

Table 2-3, page 20




Year	Increase (Decrease) in Interest			Allocation to Customers	
	Accounting Month	Production Month	Net Annual	DTS	STS
2008	\$0.2	–	\$0.2	\$0.2	–
2007	0.5	–	0.5	0.5	–
2006	1.1	0.9	2.0	2.0	–
2005	0.1	1.2	1.3	0.6	0.6
2004	0.5	(0.4)	0.1	(1.3)	1.4
2003	–	(1.7)	(1.7)	1.0	(2.7)
2002	–	(2.3)	(2.3)	(0.0)	(2.3)
Total	\$2.4	(\$2.4)	–	\$2.9	(\$2.9)


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Summary of Deferral Accounts						
Table 2-4, page 22		2007	2006	2005	2004	2003
Interconnection		\$478.8	\$467.0	\$431.4	\$381.0	\$393.5
Losses		–	–	180.7	138.4	216.5
Operating Reserve		145.9	173.4	217.2	236.2	237.9
Voltage Control		52.8	52.3	–	–	–
Other System Support		8.0	7.9	2.4	2.2	2.2
Total Revenue		\$685.6	\$700.6	\$831.8	\$757.8	\$850.1
Wires		(\$459.4)	(\$434.3)	(\$428.7)	(\$390.5)	(\$358.1)
Ancillary Services		(232.7)	(233.0)	(189.7)	(123.7)	(177.5)
Losses		–	–	(196.1)	(145.5)	(156.2)
Other Industry		(4.8)	(3.6)	(5.3)	(5.0)	(9.3)
General & Admin		(44.8)	(33.4)	(30.3)	(26.3)	(29.4)
Total Costs Paid		(\$741.7)	(\$704.3)	(\$851.4)	(\$691.1)	(\$728.7)
Surplus (Shortfall)		(\$56.1)	(\$3.7)	(\$19.6)	\$66.8	\$121.5


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Summary of Deferral Accounts After Rider C						
Table 2-4, page 22		2007	2006	2005	2004	2003
Total Revenue		\$685.6	\$700.6	\$831.8	\$757.8	\$850.1
Total Costs Paid		(\$741.7)	(\$704.3)	(\$851.4)	(691.1)	(728.7)
Surplus (Shortfall)		(\$56.1)	(\$3.7)	(\$19.6)	\$66.8	\$121.5
Rider C Collection		58.1	15.1	18.7	(72.1)	(119.5)
Net Surplus (Shortf'l)		\$2.0	\$11.3	(\$0.9)	(\$5.3)	\$2.0

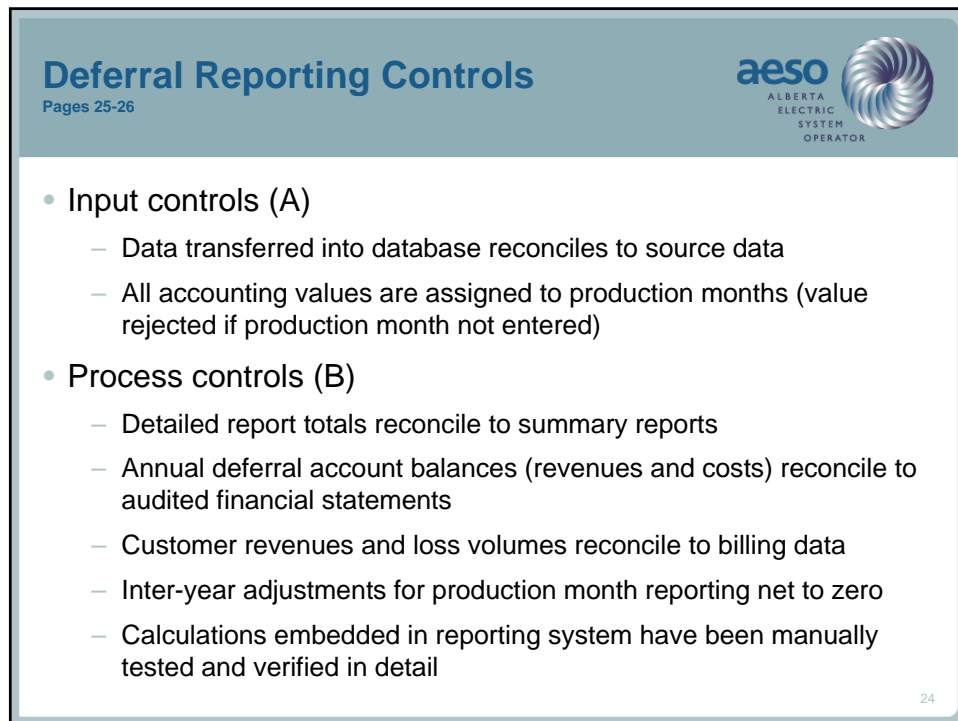
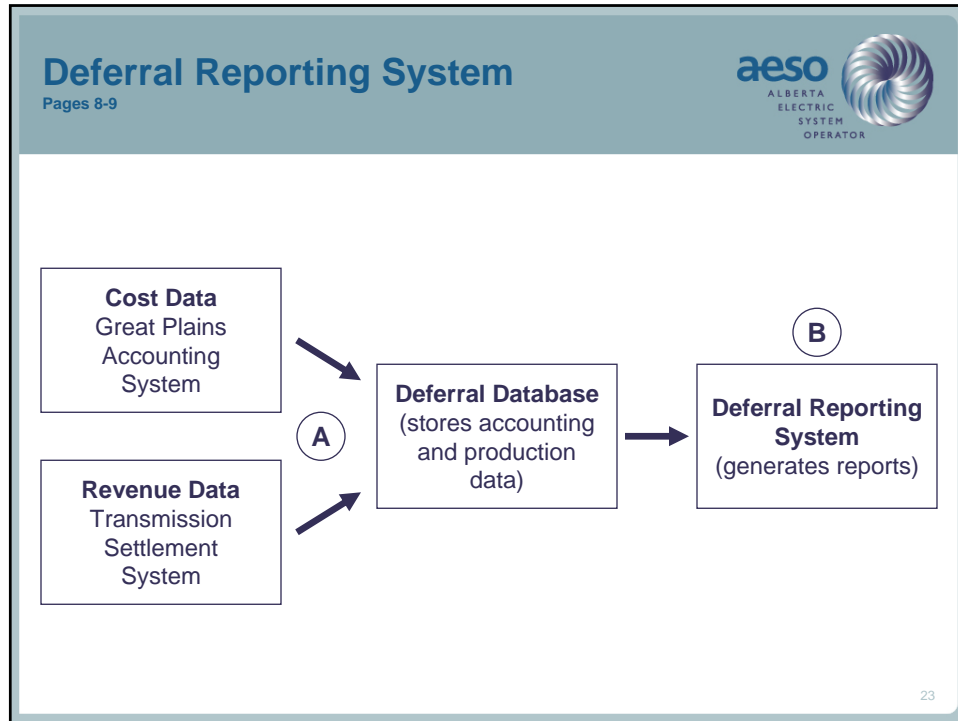
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Summary of Adjustments					
Table 2-4, page 22		2002	2001	2000	1999
Interconnection	(\$0.6)	(\$0.1)	–	–	–
Losses	(1.2)	(0.0)	–	–	–
Operating Reserve	(0.0)	(0.0)	–	–	–
Voltage Control	–	–	–	–	–
Other System Support	(0.1)	(0.0)	–	–	–
Total Revenue	(\$1.9)	(\$0.1)	–	–	–
Wires	\$15.8	\$7.7	\$0.1	–	–
Ancillary Services	(0.7)	(0.1)	(0.1)	(0.0)	–
Losses	16.6	2.2	0.0	–	–
Other Industry	0.0	–	–	–	–
General & Administration	2.3	–	–	–	–
Total Costs Paid	\$34.1	\$9.8	\$0.1	(\$0.0)	–
Surplus (Shortfall)	\$32.3	\$9.7	\$0.1	(\$0.0)	–

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Significant Prior Period Charges (Refunds)										
Table 2-4, page 22		Total	2008	2007	2006	2005	2004	2003	2002	2001
<i>Redistribution of interest to appropriate production months and rate components (pages 17-21)</i>										
–	\$0.2	\$0.5	\$2.0	\$1.3	\$0.1	(\$1.7)	(\$2.3)	–	–	–
<i>ATCO Electric tax liability refiling approved in Decision 2007-104 (pages 31-32)</i>										
(\$16.1)	–	(\$2.7)	(\$0.4)	(\$2.5)	\$0.3	(\$10.8)	–	–	–	–
<i>Compensation for TMR services provided by Rainbow Lake generating units from January 2006 to February 2008 (page 36)</i>										
\$2.1	\$0.0	\$1.2	\$0.9	–	–	–	–	–	–	–
<i>Release of TA Adjustments reflecting 2001-2005 changes to point-of-delivery meter volumes (pages 66-67)</i>										
(\$6.2)	–	–	–	(\$5.9)	\$3.3	(\$0.5)	(\$1.0)	(\$2.0)	–	–
<i>Reduction to losses costs for a one-time metering adjustment resulting in restatement of meter data over 2001, 2002, and 2003 (page 97)</i>										
(\$24.2)	–	–	–	–	–	(\$11.1)	(\$13.0)	(\$0.1)	–	–

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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 prudence

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Cost Variances (cont'd)

Pages 28-40 for 2007



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

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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

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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

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Deferral Account Reconciliations for 2006, 2005, 2004, and 2003

Pages 43-101



- 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 refiled (pages 31-32)
 - \$0.5 million refund for TA Adjustments (pages 66-67)
 - \$16.3 million refund for losses adjustments (pages 97-98)

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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)

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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)

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Allocation to Customers

Pages 107-109 and Appendices



- 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

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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

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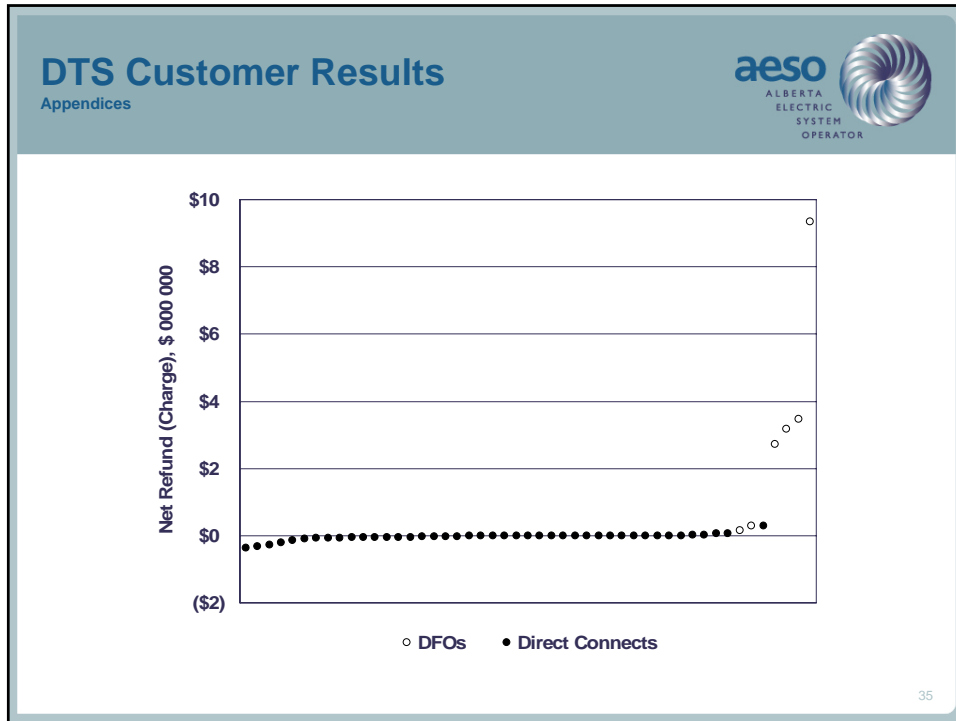
Allocation to Customers (cont'd)

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%

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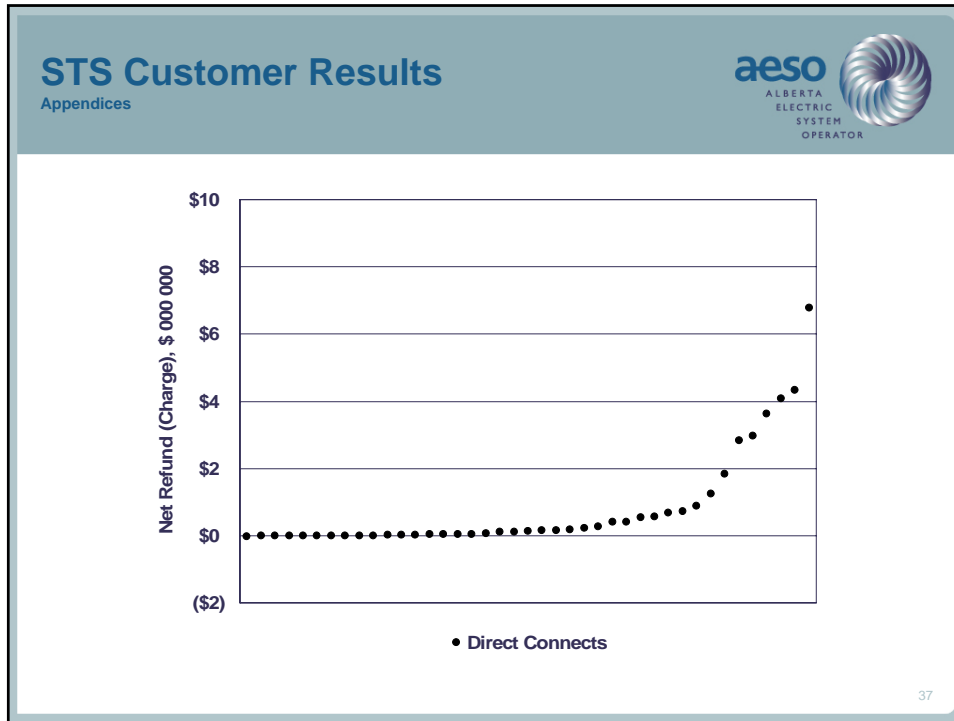


DTS Customer Results (cont'd)

Appendices


	Number of DTS Customers	% of Total DTS Customers
Charges of \$0.0 to \$0.4 million	34	69%
Refunds of \$0.0 to \$0.5 million	11	23%
Refunds of \$2.7 to \$3.5 million	3	6%
Refund of \$9.3 million	1	2%
Total	49	100%

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STS Customer Results (cont'd)

Appendices



	Number of STS Customers	% of Total STS Customers
Charges of \$0.0 to \$0.02 million	2	5%
Refunds of \$0.0 to \$0.5 million	26	63%
Refunds of \$0.5 to \$1.0 million	5	12%
Refunds of \$1.0 to \$4.3 million	7	17%
Refund of \$6.8 million	1	3%
Total	41	100%

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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

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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

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Future Deferral Account Applications Pages 26-27



- 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

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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

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For More Information



- John Martin
Director, Tariff Applications
Phone (403) 539-2465
E-mail john.martin@aeso.ca
- 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

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