

IN THE MATTER OF the Alberta Electric System Operator 2004-2007 Deferral Account Reconciliation Application Number 1574594 and Proceeding ID 60 before the Alberta Utilities Commission.

**Written Argument
of the
Alberta Electric System Operator**

October 15, 2008



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1 INTRODUCTION

5 On June 2, 2008, the Alberta Electric System Operator (AESO) filed its 2004-2007 Deferral Account Reconciliation Application (“2004-2007 Application” or “Application”) with the Alberta Utilities Commission (“AUC”)¹.

10 As summarized in section 1.4 (pages 11-12) of the 2004-2007 Application, the AESO requested approval of the first reconciliation of deferral accounts for 2007, 2006, 2005, and 2004, and of the second reconciliation of deferral accounts for 2003. The AESO also requested approval of adjustments to the previously reconciled variances for the years 1999 to 2002.

15 Approval was also requested for the customer allocation methodology for recovering and refunding outstanding variance amounts from and to the AESO’s DTS and STS rate classes, and to collect and refund the allocated amounts through a one-time payment/collection option, including approval to do so as soon as practical on an interim refundable basis.

20 Finally, the AESO requested approval of the continuation of annual retrospective reconciliation of adjustments to losses relating to years prior to 2006, and confirmation of the AUC’s acceptance of the AESO’s responses to outstanding directions.

25 The 2004-2007 Application addressed a total deferral account surplus balance of \$51.1 million as summarized in Table 2-4 (page 22). The annual deferral account amounts net of Rider C charges and refunds were:

- a surplus of \$2.0 million from the first reconciliation of the deferral accounts for 2007,
- a surplus of \$11.3 million from the first reconciliation of the deferral accounts for 2006,
- a shortfall of \$0.9 million from the first reconciliation of the deferral accounts for 2005,
- a shortfall of \$5.3 million from the first reconciliation of the deferral accounts for 2004,
- a surplus of \$2.0 million from the second reconciliation of the deferral accounts for 2003,
- a surplus of \$32.3 million from reconciliations of adjustments to the deferral accounts for 2002,
- a surplus of \$9.7 million from reconciliations of adjustments to the deferral accounts for 2001,
- a surplus of \$0.06 million from reconciliations of adjustments to the deferral accounts for 2000, and
- a shortfall of \$0.003 million from reconciliations of adjustments to deferral accounts for 1999.

40 The AESO explained in section 1.1 (page 8) that its 2004-2007 Application was a revision and extension of the 2004-2005 Deferral Account Reconciliation Application (“2004-2005 Application”) originally filed on December 1, 2007.

¹ Where required by the context, references to the AUC include its predecessor the Alberta Energy and Utilities Board in respect of periods prior to January 1, 2008.

The process established for the review of the 2004-2007 Application did not provide for the submission of intervener evidence, but included three opportunities for information requests (“IRs”).

- 5 • Information requests were first submitted on the 2004-2005 Application, with responses provided by the AESO on March 18, 2008. The AESO provided revised responses to those IRs in Appendix N of its 2004-2007 Application on June 2, 2008, reflecting changes arising from the additional information included in that Application. In this argument, references to the revised IRs provided in Appendix N include an “N” before 10 the IR number, as in ASBG-PGA.AESO-N001.
- Responses to the first round of information requests on the 2004-2007 Application were provided by the AESO on July 23, 2008.
- 15 • Responses to the second round of information requests on the 2004-2007 Application were provided by the AESO on September 9, 2008.

20 The AESO provided responses to information requests from the AUC, the Alberta Sugar Beet Growers and Potato Growers of Alberta (ASBG/PGA), EPCOR Utilities (EPCOR), the Public Institutional Consumers of Alberta (PICA), TransAlta Corporation (TAC), and TransCanada Energy (TCE).

The AESO also held two technical sessions related to the Application:

- 25 • a technical session on the 2004-2005 Application at the AESO office in Calgary on February 8, 2008, and
- a technical session on the 2004-2007 Application at the AESO office in Calgary on June 16, 2008.

30 The AESO provides the following written argument on matters addressed in its 2004-2007 Application and raised in information requests from participants during the proceeding. Lack of comment on any specific matter does not necessarily indicate lack of materiality or significance of that matter. In particular, if an information request simply asked for additional information or did not suggest an approach that differed from the AESO’s proposals, that IR may not be referenced in this argument. The AESO reserves the right to respond in reply 35 argument to matters raised by other parties which are not addressed in this argument.

2 AMOUNTS INCLUDED IN THE 2004-2007 APPLICATION

As discussed in section 1.1 (pages 6-9) of the 2004-2007 Application, the AESO's approved tariffs (and those of its predecessors, ESBI Alberta Ltd. and Grid Company of Alberta) have included the use of deferral accounts since January 1, 1997. Deferral accounts are necessary to ensure no profit or loss results from the AESO's operation in accordance with section 14 of the *Electric Utilities Act* ("EUA").² Deferral accounts allow the AESO to address differences between actual revenues and costs incurred in providing system access service to customers, and are specifically provided for in subsections 122(2) and 122(3) of the EUA.

The reconciliation of AESO deferral account balances and the associated allocation of those balances to customers have previously been addressed by the AUC in Decision 2003-099 for 2000, 2001, and 2002 and in Decision 2005-034 for 2003. Under the deferral account methodology most recently approved by the AUC in those decisions, the AESO reconciles, on a retrospective basis, the actual costs incurred in providing system access service to the revenues recovered in rates relating to provision of that service. For the reconciliation, costs and revenues are attributed to the time period during which the service was provided, which is referred to as reconciliation on a "production month" (or "production year") basis.

The 2007, 2006, 2005, 2004, and 2003 deferral account reconciliations included in the 2004-2007 Application were prepared on a retrospective, monthly, and production month basis, consistent with the method used in the 2003 first reconciliation (as refiled on December 14, 2004) as reviewed and approved by the AUC.

As well, the AESO implemented several enhancements to the deferral account reconciliation process described in the Application as a result of conclusions reached during consultation with stakeholders from 2004 to 2008 (as summarized in Appendix A (pages 116-128) of the Application). The enhancements included a simplified approach to address "prior period" deferral account adjustments relating to the years from 1999 to 2002.

The deferral account reconciliations, prior period adjustments, and allocations to customers provided in the body and appendices of the 2004-2007 Application were prepared using a software program developed by the AESO in 2006 and 2007 specifically for that purpose. The program allowed more effective handling of the large quantity of data involved in the multi-year deferral account reconciliation.

As discussed in section 2.1 (pages 13-15) of the 2004-2007 Application, the data included in the Application comprised all costs paid and revenues collected by the AESO that:

- had not been settled in previous deferral account reconciliation filings;
- related to 2007 or prior years for all costs except those related to losses, and to 2005 and prior years for costs related to losses; and
- had been accounted for up to March 31, 2008.

² R.S.A. 2003, c. E-5.1

The 2004-2007 Application included several significant amounts that were attributed to prior periods under the production month presentation used in the Application. Those amounts were discussed in detail in the relevant production year sections of the Application.

5 As noted above, reconciliation of losses amounts for the 2007 and 2006 deferral account years were not included in the 2004-2007 Application. This exclusion reflects that transmission system losses are no longer subject to retrospective deferral account reconciliation effective January 1, 2006, in accordance with approvals received as part of the AESO's 2006 General Tariff Application. Since then, losses have instead been subject to prospective adjustment through Calibration Factor Rider E. However, adjustments relating to years prior to 2006 have occurred since that date, and such pre-2006 adjustments continue to be addressed through the annual retrospective reconciliations for those years in the Application.

15 Also as noted above, any adjustments relating to 2007 or prior years which occurred on or after March 31, 2008 were not included in the 2004-2007 Application, and will be addressed in a future deferral account reconciliation application.

20 As explained in section 2.2 (pages 16-17) of the 2004-2007 Application, all revenues, costs, and adjustments included in the Application were presented on a production month basis, with the following exceptions.

- 25 (1) AESO "own costs" (which comprise other industry costs and general and administrative costs of the AESO) were attributed to the month in which they occurred, as by their nature they were not attributable to specific matters of "production".
- 30 (2) Rider C amounts were treated on an accounting month basis, as deferral account allocations were fully recalculated on a production month basis, and the netting of Rider C amounts against the recalculated allocations produce the same results whether treated on a production month or accounting month basis.
- 35 (3) Prior year adjustments relating to 2001, 2000, and 1999 were presented on a production year (rather than production month) basis, as the original reconciliations for those years were performed on an annual rather than monthly basis.
- 40 (4) Adjustments relating to 2000 and 1999 were extremely small, totalling less than \$100,000 over both years, and were included for allocation with the adjustments for 2001 for simplicity and practicality.

45 No information requests raised concerns with the revenue, cost, and adjustment amounts presented in the 2004-2007 Application, the periods for which data was included, or the attribution of costs, revenues, and adjustment to production months and years, other than in relation to the recognition of interest discussed in section 4 of this argument. The AESO therefore submits that the amounts and periods included, and the attribution of amounts to production periods, should be approved as filed.

3 COST AND REVENUE VARIANCES

5 The 2004-2007 Application included sections detailing the financial results and deferral account balances for each deferral account year addressed in the Application. Each of sections 3 (pages 28-42), 4 (pages 43-57), 5 (pages 58-71), and 6 (pages 72-87) first discussed variances of costs from the AESO's approved revenue requirement for 2007, 2006, 2005, and 2004, respectively. An explanation of a line item cost variance was provided when it:

- 10 • exceeded approximately $\pm 10\%$ of the amount of the general and administrative costs component of the AESO's revenue requirement, or
- was smaller than $\pm 10\%$ of the amount of the general and administrative costs component but was at least $\pm 1\%$ of that amount and at least $\pm 10\%$ of the approved line item amount itself.

15 For the second reconciliation of the 2003 deferral accounts included in section 7 (pages 88-101) of the 2004-2007 Application, those threshold levels were reduced by half. An explanation of a line item cost variance for 2003 was therefore provided when it:

- 20 • exceeded approximately $\pm 5\%$ of the amount of the general and administrative costs component of the AESO's revenue requirement, or
- was smaller than $\pm 5\%$ of the amount of the general and administrative costs component but was at least $\pm 0.5\%$ of that amount and at least $\pm 5\%$ of the approved line item amount itself.

25 No similar threshold was established for the cost adjustments for 1999-2002 included in section 8 (pages 102-106) of the 2004-2007 Application, although explanations were provided for large variance amounts.

30 As explained in section 2.5 (page 25) of the 2004-2007 Application, the AESO considers the Application and related proceeding to be the proper venue for the consideration of the prudence of AESO costs incurred with respect to 2007, 2006, 2005, and 2004. As well, where significant adjustments to 2003 and prior year costs were included in the deferral account reconciliation, the Application and related proceeding is also the proper venue for consideration of the prudence of those adjustments.

35 Information requests ASBG-PGA.AESO-N005, Comm.AESO-N003, and TCE.AESO-N001 asked for additional information about specific costs and variance explanations included in the 2004-2007 Application. The AESO's responses to those IRs revealed no errors or imprudence with respect to costs in the Application, and no corrections were required as a result of the additional information provided. The AESO therefore submits that the recorded costs included in the 2004-2007 Application should be approved as filed.

45 Each section of the 2004-2007 Application also discussed variances of revenue from the amounts forecast to be collected from base rates in effect during the year. Explanations were provided where variances of recorded revenue from forecast were large.

Information request TCE.AESO-N011 asked for additional information about revenue variances between the first and second reconciliations of 2003. The AESO's response



revealed no errors and required no corrections as a result of the additional information provided. The AESO therefore submits that the recorded revenues included in the 2004-2007 Application should also be approved as filed.

5 Costs and revenue variances through a year give rise to deferral account balances. The deferral account balances for each year were summarized in the relevant sections of the 2004-2007 Application, including amounts collected or refunded through Rider C to maintain net deferral account balances at reasonable levels by rate and rate component.

10 As discussed in section 2.6 (page 26) of the 2004-2007 Application, the AESO also reconciled the deferral account amounts in the Application to the AESO's audited financial statements, in Appendixes B, C, and D of the Application.

15 As no corrections were required to the recorded costs and revenues included in the 2004-2007 Application, the AESO submits the deferral account balances and adjustments also be approved as filed. However, the AESO notes that its proposed redistribution of interest (discussed in the following section) has an impact on the deferral account balances, and in the event that the redistribution of interest is subject to adjustment, the deferral account
20 balances may need to be revised accordingly.

4 REDISTRIBUTION OF INTEREST

5 The 2004-2007 Application included one material departure from the AESO's previous deferral account reconciliation applications and approvals, in that the AESO proposed to recognize interest on deferral account balances accruing in 2006, 2005, and 2004. This proposal generated significant attention from ASBG/PGA and TransCanada in their information requests.

10 The AESO discussed its proposed redistribution of interest in section 2.3 (pages 17-21) of the 2004-2007 Application. The Application included the calculation of interest on deferral account balances accruing in 2006, 2005, and 2004 and the redistribution of the calculated interest both between production months and between rate and rate components. Previous deferral account reconciliation applications did not include any recognition of interest.

15 As explained in section A-13 of Appendix A (page 127) of the 2004-2007 Application, the AESO considered it appropriate to account for interest in the 2004-2007 Application because of the following extraordinary circumstances of the Application.

- 20 • The Application covered an extended period which included first reconciliations for 2007, 2006, 2005, and 2004, a second reconciliation for 2003, and reconciliations of adjustments for years from 1999 to 2002.
- The Application had been delayed for the reasons discussed in Appendix A-2 (pages 118-119) of the 2004-2007 Application.
- 25 • The Application included a number of large one-time adjustments, some of which were laid out in Schedule TCE.AESO-N002 (b-c) in the information responses filed on March 18, 2008.

The AESO further explained in section 2.3 (pages 18-19) of the 2004-2007 Application that these extraordinary circumstances gave rise to the following results:

- 30 • the deferral account balances during 2006, 2005, and 2004 totalled a material surplus for 29 out of 36 months, as summarized in Table 2-2 (page 18);
- the average monthly balance over the three-year period was a surplus of \$11.3 million; and
- 35 • the balances had remained outstanding for two to four years, resulting in large part from the AESO's decision to retain a \$24.2 million one-time refund accounted for in May 2005 related to losses incurred from 2001 to 2003.

The AESO also commented that expectations for deferral account balances, including use of Rider C throughout a year, would normally include:

- 40 • deferral account balances that were sometimes shortfalls and sometimes surpluses,
- deferral account balances that averaged near zero over time within a reasonable range of forecast variance, and
- application for reconciliation of deferral account balances shortly after year-end.

45 The AESO considered that the 2007 deferral account was not subject to the same extraordinary circumstances as the 2004-2006 deferral accounts, as these "normal" expectations were satisfied in 2007. Primarily, the monthly deferral account balances, less

the \$7.5 million closing balance surplus from December 2006, averaged only \$0.9 million shortfall. As well, reconciliation of the 2007 deferral accounts was included in the 2004-2007 Application filed in the second quarter following year-end. As a result, the AESO excluded deferral account amounts accruing in 2007 from the interest redistribution.

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Although the AESO excluded amounts accruing in 2007, the calculation of interest did include the \$7.5 million 2006 deferral account closing balance surplus throughout 2007 and up to July 2008, as discussed in section 2.3 (page 20) of the 2004-2007 Application.

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As further explained in section 2.3 (page 20) of the 2004-2007 Application, the AESO also considered that the proposed redistribution of interest was consistent with relevant aspects of section 3(2) of AUC Rule 023 respecting payment of interest, specifically:

- (b) the regulatory lag before implementation of the rate adjustment must exceed a period of twelve months;
- 15 (c) for general utility rates, the minimum amount of the forecast aggregate change in revenue shall ordinarily be the greater of $\pm\$1,000,000$ or $\pm 3\%$ of the revenue from the rates being revised...;
- (d) interest will be calculated from the date on which the rate adjustment becomes effective;
- 20 (e) interest will be calculated using a rate equal to the Bank of Canada's Bank Rate plus $1\frac{1}{2}\%$

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In redistributing interest, the AESO first examined how surpluses and shortfalls affect the deferral accounts. As summarized in section 2.3 (pages 18-19) of the 2004-2007 Application, 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.

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The AESO further explained that the existence of material surpluses for extended periods of time reduced the AESO's interest expense as discussed above, which in turn reduced the general and administrative costs allocated to customers. General and administrative costs (including interest expense) were allocated in the same manner as interconnection charges in the AESO's deferral accounts, which for 2004 and 2005 was 58% to DTS customers and 42% to STS customers, and for 2006 and later years was 100% to DTS customers.

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The process used by the AESO to redistribute interest was described in section A-13 of Appendix A (pages 127-128) of the 2004-2007 Application:

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For clarity, the AESO does not earn or incur interest directly on its deferral account balances, but rather deferral account surpluses and shortfalls are managed in conjunction with other financial obligations of the AESO. The AESO carries a certain amount of debt to provide working capital and fund

capital purchases, and deferral account balances affect the amount of debt carried. The cost of interest incurred on debt accrues to the AESO's "own costs" which is allocated to AESO customers in accordance with the AESO's approved tariffs.

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Redistribution of interest will therefore result in amounts being moved between production years and months, between rates and rate components, and between customers. As discussed in Information Responses [TCE.AESO-N002 (e), -N003 (d), and -N009 (c)], deferral account surpluses reduce debt balances that the AESO would otherwise have been required to carry, and therefore avoid interest expense. Similarly, deferral account shortfalls increase debt balances that the AESO would otherwise have been required to carry, and therefore incur additional interest expense. Redistribution of interest in the deferral account reconciliation would involve the following steps:

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1. calculate the monthly interest expense or revenue that would have been incurred based solely on the outstanding deferral account balance,
2. adjust interest expense that was actually incurred on a monthly basis to reflect the calculated increase or decrease in interest as calculated in step 1, and
3. credit or charge an equivalent amount to the production periods, rates, and rate components relevant to the deferral account balance which gave rise to the interest expense adjustment.

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The increase or decrease in interest expense would be allocated as incurred in a period in the same manner as interconnection charges in the AESO's deferral accounts. The equivalent credit or charge would be allocated on a production month basis in the same manner as the deferral account balance which gave rise to the interest expense adjustment. Amounts will therefore move between production periods, rates and rate components, and customers, although no change in net deferral account balance will occur.

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The AESO's proposed redistribution of interest based on deferral account balances is similar to how interest expense would have been incurred had the balances been maintained at zero through Rider C charges or credits. As well, calculating interest on deferral account balances means that interest is not assessed until the AESO receives or disburses funds related to a transaction. More specifically, interest begins to accrue only when an adjustment is included on an account restatement by the AESO.

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In several information requests, ASBG/PGA asked the AESO to provide deferral account reconciliation schedules which excluded the redistribution of interest (that is, similar to the reconciliation approved in previous AUC decisions), and to reconcile actual and calculated interest amounts. The responses provided by the AESO revealed no errors and required no corrections to the proposed redistribution of interest.

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Also in several information requests, TransCanada asked the AESO to examine alternative approaches to calculating interest. In response to TransCanada's IRs, the AESO calculated

interest on specific adjustments (initially on both wires and losses adjustments, but later on just losses adjustments) rather than on deferral account balances. The AESO does not consider the approaches suggested by TransCanada to represent either a fair, reasonable, or appropriate determination of interest.

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The AESO considers that TransCanada's suggestions differ from the AESO's proposal in three primary aspects:

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- TransCanada suggested interest should be calculated from the production period in which service was initially provided and financially settled, to the accounting period in which the AESO issued a restatement of account for that period.
- TransCanada suggested interest should be calculated on the total amount of an adjustment, rather than on the balance of a deferral account.
- TransCanada suggested interest should be calculated on amounts accruing in 2007 and 2008.

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The AESO responded to these suggestions in its information responses, which are summarized and augmented, where appropriate, below.

4.1 Interest Prior to Account Restatements

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TransCanada suggested, in information requests TCE.AESO-002 and -004, that interest be calculated from the date an undetected error occurred to the date of financial settlement of the adjustment correcting that error. In response to TCE.AESO-002, the AESO noted that where such adjustments result from AUC decisions, the AUC typically determines whether interest is calculated on amounts owed or owing. Calculating interest on those amounts in the AESO's deferral account reconciliation could result in interest being determined twice on some amounts, or in interest being determined on amounts where the AUC had decided interest should not be included.

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The AESO also explained that it neither charges nor refunds interest on amounts owing on account restatements arising from metering adjustments. This practice is consistent with that of distribution utilities in Alberta with respect to bill adjustments, as explicitly included in the currently-approved terms and conditions of ENMAX Power (Section 15.7), EPCOR Distribution (Article 6.8), and FortisAlberta (Article 11.8). The AESO also considers it to be consistent with section 3(2)(d) of AUC Rule 023 as referenced above, where interest is "calculated from the date on which the rate adjustment becomes effective".

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The AESO added in response to TCE.AESO-004 (b) that this approach was also consistent with the regular account restatements which happen in interim and final settlement in the energy market.

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Finally, the AESO considers that a long-standing practice should not be changed retroactively as a result of a deferral account proceeding, but should first be examined with opportunity for full debate among all potentially-affected parties and, if changed as a result, should be implemented on a go-forward basis only.

4.2 Interest on Adjustment Amounts Rather Than Deferral Account Balance

5 TransCanada suggested, also in information requests TCE.AESO-002 and -004, that interest should be calculated on the total amount of an adjustment rather than on the deferral account balance. In response TCE.AESO-004 (b), the AESO explained that deferral account adjustment riders address adjustments that result in deferral account shortfalls and surpluses through charges or credits on transmission account statements in the following calendar quarter. The “unwinding” and reallocation 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.

15 The AESO further notes that interest has not been added to similar adjustment amounts in previous AESO deferral account reconciliations. As proposed in the AESO’s 2004-2007 Application, it is appropriate to redistribute interest when deferral account balances consistently remain, net of Rider C charges and credits. But that interest should only be calculated on the deferral account balances themselves, not on the total amount of adjustments where those adjustments are typically addressed in part through the use of Rider C.

20 The AESO also notes that Rider C can only address deferral account adjustments after they appear on account restatements. Rider C cannot be used to manage subsequent deferral account adjustments which are later assigned back to prior production periods. TransCanada’s suggestion to calculate interest on adjustments assigned to prior production periods implies that deferral account balances can never be managed through Rider C, which is limited to addressing current-period amounts.

30 The AESO observes that where interest has been determined in other deferral account reconciliations previously approved by the AUC, it has typically been assessed against the net deferral account balance and not on individual adjustments. For example, interest on the pool price deferral accounts addressed in AUC Decision 2002-026 was determined on the net deferral account balance. Similarly, AUC Order U2006-323 which approved settlement of FortisAlberta’s 2005 AESO charges deferral accounts included interest calculated on net deferral account balances.

35 The AESO further observes that this appears to be the practice in other jurisdictions as well. The British Columbia Utilities Commission in Order G-135-08 recently approved settlement of deferral accounts for the British Columbia Transmission Corporation (“BCTC”), which included interest charges or credits applied to the annual average balance in each deferral account using BCTC’s weighted average cost of debt during the same period.

4.3 Calculation of Interest on Amounts Accruing in 2007 and 2008

45 As discussed earlier in this section, the AESO is of the view that recognition of interest is appropriate only because of the extraordinary circumstances applicable to the 2006, 2005, and 2004 deferral accounts. The “normal” expectations for deferral account treatment were fully satisfied for 2007, and therefore amounts accruing in 2007 should not include recognition of interest. (However, as discussed earlier in this section, interest should be



calculated on the \$7.5 million 2006 deferral account closing balance surplus throughout 2007 and up to July 2008.)

5 The AESO further notes that interest has not been recognized on its previous deferral account applications, including the 2000-2002 reconciliation filed on September 15, 2003 and the 2003 reconciliation filed on June 4, 2004. The AESO considers that decisions on those applications establish “normal” treatment of AESO deferral accounts, and that filing the reconciliation for 2007 on June 2, 2008 is consistent with such treatment.

10 In conclusion, the AESO submits that TransCanada’s suggested approaches to calculating interest do not represent either a fair, reasonable, or appropriate determination of interest. The methodology included in the AESO’s 2004-2007 Application is consistent with utility practice and regulatory precedent, and should be approved as filed.

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5 ALLOCATION TO AND SETTLEMENT WITH CUSTOMERS

5 Deferral account balances and adjustments in the 2004-2007 Application were allocated to customers as in previous deferral account reconciliation applications, and in accordance with the conclusions reached during the stakeholder consultation discussed in Appendix A (pages 116-128) of the Application. The allocation to customers was discussed in sections 9.1 and 9.2 (pages 107-108) of the 2004-2007 Application.

10 The 2003 to 2007 deferral account balances (except for losses) were allocated to individual customers based on each customer's percentage of total revenue collected through the rates in place during the period. Balances were allocated by rate and rate component and by month.

15 Effective January 1, 2006, transmission system losses were no longer subject to retrospective deferral account reconciliation. Accordingly, the 2004-2007 Application did not include any allocation of losses deferral account balances to customers for 2006 and 2007.

20 Deferral account balances associated with losses for 2003, 2004, and 2005 were allocated to individual customers, based on each customer's hourly production multiplied by the pool price in the hour summed over each production month. The losses allocation methodology is consistent with the allocation methodology approved in previous reconciliation applications.

25 Adjustments relating to 2002 and prior years were allocated to customers using the final allocators approved by the AUC for each of those years, which were similarly based on each customer's hourly production multiplied by the pool price. Adjustments relating to 2002 were allocated by rate and rate component using the 2002 monthly allocators approved in AUC Decision 2003-099. Adjustments relating to 2001, together with the small adjustments relating to 1999 and 2000, were allocated by rate and rate component using the 2001 annual allocators approved in AUC Decision 2003-099.

30 In information request ASBG-PGA-N001, ASBG/PGA suggested the interconnection charges deferral account balances should be allocated by demand and energy rate sub-components. The AESO explained in response that the deferral account balances would be classified to rate sub-components in the same manner as the original forecast interconnection charge revenue requirement. Therefore, using demand and energy sub-components would have no material impact on the accuracy of the allocation, compared to allocation based on customers' interconnection charge revenue.

40 In information request ASBG-PGA.AESO-N003, ASBG/PGA also questioned whether Customer-Owned Substation (COS) Credits or other revenue categories should be assigned to specific customers. The AESO explained in response that the deferral accounts apply only to Rates DTS and STS, as noted on the rate sheets for those rates and for the AESO's Riders B and C. COS Credits, Demand Opportunity Services (DOS), and Under-Frequency Load Shedding (UFLS) Credits should not be subject to deferral account treatment. The remaining "other revenue" categories either have no basis on which to determine a variance between forecast and actual costs, or do not relate to specific customers.

5 The AESO also explained in section 9.1 (pages 107-108) of the 2004-2007 Application that, after deferral account balances were allocated to customers, the Rider C revenue already paid by each customer was subtracted by rate and rate component. The remaining balance was the amount of the deferral account charge or refund attributed to the customer on a production month basis, by rate and rate component.

10 In section 9.3 (pages 108) of the 2004-2007 Application, the AESO explained that the results of the deferral account allocation for each DTS and STS customer were included in Appendices H, J, K, and L, in annual customer detail summaries and customer allocation detail. Customer confidentiality was protected by assigning a number to each AESO direct-connect customer as had been done in previous deferral account reconciliation applications. After filing the Application, the AESO distributed to each customer the applicable customer and generator numbers for the deferral account reconciliation years included. The AESO also provided to any customer on request deferral account allocation data for each of the customer's settlement points, in Microsoft Excel format.

20 In information requests on the 2004-2005 Application, PICA and TransAlta both asked that allocation information be provided at the settlement point level. The provision of settlement point detail on request after the filing of the 2004-2007 Application addressed that concern.

25 The AESO also explained in section 9.3 (pages 108-109) of the 2004-2007 Application that, where a customer assigned its System Access Service Agreement to another customer (the "assignee") in 2002 and later years, the deferral account allocation was applied to the account of the assignee, and the applicable customer numbers were provided only to the assignee. Similar treatment was not possible for assignments in 2001 and prior years due to a lack of detailed assignment data for those years.

30 Although not the subject of an information request, FortisAlberta (after receiving its settlement point detail reports) identified 14 settlement points which originally were served by FortisAlberta but later became direct-connect customers of the AESO under section 101(2) of the EUA. The AESO had originally recorded these changes as termination of the FortisAlberta service and set-up of a new AESO service, rather than as a transfer of the service from FortisAlberta to the AESO. The pre-transfer deferral account allocations had therefore been included as FortisAlberta amounts, rather than being handled by the AESO as had similar allocations in accordance with AUC Decisions 2003-054 and 2003-099. The AESO and FortisAlberta have worked together to confirm the 14 accounts, remove their deferral account allocations from the FortisAlberta amounts, and have those allocations refunded or charged to the relevant customers by the AESO. The amounts allocated to those 14 accounts totalled a net refund to customers of \$79,843.

40 Finally, the AESO stated in section 9.4 (page 109) of the 2004-2007 Application that the current legislated federal Goods and Services Tax ("GST") rate of 5% would be applied to the deferral account balances being charged and refunded.

45 In summary, the allocation of deferral account balances and adjustments to customers was completed as in previous deferral account reconciliation applications and in accordance with the conclusions reached during stakeholder consultation. As no material concerns were



discovered through information responses, the AESO submits the allocation to customers should be approved as filed, revised to reflect amounts related to the 14 section 101(2) accounts transferred from FortisAlberta.

5 As described in section 10 (page 110-111) of the 2004-2007 Application, the AESO proposed a one-time payment and collection option to settle the outstanding deferral account balances, consistent with the approach approved for the AESO's 2003 deferral account reconciliation. If one-time collection presented a financial burden to a customer, the AESO considered it reasonable to offer a three-month payment option, including carrying
10 charges, as had been offered to customers in previous deferral account reconciliations.

When filing the 2004-2007 Application on June 2, 2008, the AESO requested that the refunds and charges due to customers be settled as soon as possible on an interim refundable basis. The AUC issued Order U2008-253 on July 17, 2008, approving the interim
15 distribution of the deferral account balances as proposed in the Application. The AESO included the refunds and charges on final statements for June 2008, issued to customers on July 22, 2008.

The AESO notes that amounts settled on invoices issued in July 2008 are interim and refundable, and are subject to adjustment in the final decision on the 2004-2007 Application. In its Application, the AESO proposed that the impact of any such adjustment be assessed to determine whether a separate settlement process is required or whether the adjustment can be included in the 2008 deferral account reconciliation application to be filed in the
20 second quarter of 2009.

As the close of record for this proceeding is now expected to occur with the filing of written reply argument on October 29, 2008, the AESO anticipates a final decision on the Application will likely be issued in January 2009. As the AESO will need to start preparing data for its 2008 reconciliation in February 2008 to meet a second quarter filing date, the
30 AESO recommends that any adjustments arising from the final decision on the 2004-2007 Application be addressed in the 2008 reconciliation rather than in a separate settlement. Addressing adjustments in the 2008 reconciliation will allow for an efficient process and will avoid delays that might otherwise arise in filing the 2008 application.

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6 FUTURE DEFERRAL ACCOUNT RECONCILIATIONS

5 In section 2.8 (pages 26-27) of the 2004-2007 Application, the AESO noted that it had assessed the effect of changes to transmission billing volumes for load customers between initial, interim, and final settlements as part of the examination of the 2004-2005 Application. The AESO found the volume changes to be minimal. Therefore, based on the quality of initial settlement data, the AESO proposed to prepare future retrospective deferral account reconciliation applications after initial settlement of December volumes.

10 Historically, the AESO has waited for final settlement of December data (which occurs in the following August) before beginning preparation of a deferral account reconciliation application. The AESO now believes that preparing future applications based on initial settlement volumes will have minimal impact on the accuracy of deferral account allocations to customers.

15 The AESO accordingly explained that it intends to file its 2008 and 2009 deferral account reconciliation applications in the second calendar quarter of the year following the deferral account year. The AESO will use a data cut-off date in the first calendar quarter of the year, for transactions to be included in that application.

20 The AESO was questioned on its plans for future deferral account reconciliation applications in information requests Comm.AESO-N001, EPCOR.AESO-N001, PICA.AESO-N001, and TCE.AESO-N007 on the 2004-2005 Application. The information provided in section 2.8 of the extended 2004-2007 Application, as summarized above, responded to those questions.

25 The AESO also proposed, in section A-8 of Appendix A (pages 123-124) of the 2004-2007 Application, to consult with stakeholders in early 2009, after the AUC has issued its final decision on the 2004-2007 Application. The consultation will consider:

- 30
- 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.

35 The AESO explained in section 2.8 (page 27) of the 2004-2007 Application that if the consultation resulted 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.

40 However, as clarified in information response AUC.AESO-002, the AESO is not seeking any decision in the current proceeding in respect of a possible prospective reconciliation approach.

7 CONCLUSION

5 The AESO submits that no party has raised in information requests any substantive matter requiring correction or revision to the proposals included in the AESO's 2004-2007 Deferral Account Reconciliation Application.

The AESO notes that no party commented on the responses to directions included in section 11 (pages 112-115) of the 2004-2007 Application.

10 As well, the AESO's Application included extensive detail in several appendices, none of which were subject to information requests.

15 Having consideration for all the foregoing, the AESO submits that its 2004-2007 Application should be approved as filed, and that the relief requested in section 1.4 (pages 11-12) of the Application should be granted in full.

20 Accordingly, the AESO further submits that the distribution of the deferral account balances approved on an interim basis in Order U2008-253, as discussed in section 5 of this argument and revised to reflect amounts related to the 14 section 101(2) accounts transferred from FortisAlberta, should be confirmed as final.