

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 Reply Argument
of the
Alberta Electric System Operator**

October 29, 2008



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1 INTRODUCTION

5 The Alberta Electric System Operator (“AESO”) has reviewed the written argument filed with respect to its 2004-2007 Deferral Account Reconciliation Application (“2004-2007 Application” or “Application”) by the following four parties:

- the Alberta Sugar Beet Growers, Potato Growers of Alberta, and Public Institutional Consumers of Alberta (“ASBG/PGA/PICA”);
- the Cities of Red Deer and Lethbridge (“Cities”);
- EPCOR Utilities (“EPCOR”); and
- 10 • TransCanada Energy (“TransCanada”).

15 The arguments submitted by these parties focussed on one aspect of the Application, the redistribution of interest discussed in section 4 of the AESO’s Argument. The AESO provides the following Reply Argument to matters raised, in turn, in the arguments of ASBG/PGA/PICA, the Cities, EPCOR, and TransCanada.

20 Where the AESO has already sufficiently addressed matters in its Argument, no further comments are provided. However, lack of response in this Reply Argument to any particular matter raised by parties in argument does not indicate agreement on that matter by the AESO.

25 For clarity, the AESO notes that, 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. Similarly, where required by the context, references to the AESO include its predecessors ESBI Alberta Ltd. and Grid Company of Alberta.

2 MATTERS RAISED IN ARGUMENT OF ASBG/PGA/PICA

ASBG/PGA/PICA indicated in their argument (page 1) “concerns with the AESO proposal to include additional imputed interest charges and a redistribution of these interest charges to DTS and STS customers.” The specific concerns raised by ASBG/PGA/PICA are discussed below.

ASBG/PGA/PICA suggested that the recognition of interest was inappropriately proposed by the AESO in “a deferral account process rather than a GTA” (page 2), that “a significant proposal such as the current interest imputation on deferral account balances and re-distribution should not be initiated in a deferral account proceeding for approval” (page 4), and that “the issue [should] be part of the next AESO GTA and not the current reconciliation proceeding.” (page 10)

The AESO understands that its deferral accounts were initially established as part of general tariff application proceedings. However, significant interpretations of and revisions to the determination and recovery of deferral account balances have been made in deferral account reconciliation proceedings. In particular, in Decision 2003-099 on the AESO’s 2000-2002 Deferral Account Reconciliation, the AUC determined that Rider C was “interim refundable for the purposes of deferral account reconciliation” (page 17), that deferral account balances should be reconciled on an annual basis for 2000 and 2001 and on a monthly basis for 2002 (page 23), and that losses should be reconciled on a “production month” basis for 2002 (page 23). Clearly, significant determinations with respect to deferral account reconciliations have been made outside of general tariff applications in the past. The AESO accordingly submits that there is no reason that a determination on interest redistribution cannot properly be made in the current deferral account reconciliation proceeding.

ASBG/PGA/PICA provided a summary table of AESO interest expense for 2004-2007 (page 4) and then noted (page 5), “It is evident from this summary that the forecast and actual interest expense on an annual basis are quite close and therefore result in reasonable variances. However when the imputed interest charges pursuant to the AESO proposal are included in the annual summaries the variances are substantially greater....” ASBG/PGA/PICA appear to be arguing that since recorded values (excluding interest redistribution) are close to forecast values, the AESO’s proposed redistribution of interest is unreasonable and “not commensurate with the previous levels of forecast and actual interest costs.” (page 5) The AESO explained in Information Response ASBG/PGA/PICA-002 (e) that annual interest expense is “based on anticipated letter of credit and standby fees, funding of capital assets, and monthly deferral balances” and that due to “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.” The AESO submits that multiple factors therefore affect interest expense variances, and the reasonableness of the proposed interest redistribution is not diminished by smaller variances from forecast. The fact remains that interest expense was lower than would have been the case had deferral account surpluses not been retained by the AESO, and, in particular, “in large part from the AESO’s decision to retain the \$24.2 million one-time refund

accounted for in May 2005 related to losses incurred from 2001 to 2003....” (Application, page 18)

5 With respect to ASBG/PGA/PICA’s comment (page 5) that “the variances are substantially greater” with the proposed redistribution of interest, the large variances simply reflect the magnitude of the deferral account surpluses over 2004-2006. As noted in the Application (page 18), an average deferral account balance of \$11.3 million surplus existed from 2004 through 2006, which can be expected to impact interest expense substantially.

10 ASBG/PGA/PICA assumed that the AESO’s Table 2-2 in the Application (page 18) “only addresses deferral account balances” and stated, “The Table does not take into account the important Rider C collection and refund amounts since the intent of Rider C is to minimize the overall net surplus and shortfall amounts on an ongoing quarterly basis.” This is incorrect. The balances in Table 2-2 are net of Rider C collections and refunds, as can be
15 readily confirmed by reviewing the monthly deferral account summaries posted on the AESO web site (available at www.aeso.ca by following the path Market ► Settlement ► Transmission Deferral Accounts ► Archives).

20 ASBG/PGA/PICA further misinterpreted the differences between Table 2-2 and data provided in Information Response ASBG-PGA.AESO-001 as arising from the impact of Rider C. The difference between those two sources arises from the accounting month presentation underlying Table 2-2 and the production month presentation in the information response. Interest is an accounting month expense, and was calculated on the deferral account balances as they existed in accounting records in each month presented in Table
25 2-2. Those accounting month balances were allocated to production periods in the information response. For example, the \$24.2 million losses adjustment results in significant surpluses on an accounting month basis in several months in 2004 in Table 2-2, but that adjustment was fully allocated to production months in 2001, 2002, and 2003 in the information response. ASBG/PGA/PICA incorrectly interprets the lower balances in the
30 production month data as arising from the effects of Rider C.

35 ASBG/PGA/PICA suggested (page 6) that the interest rate provided in AUC Rule 023 “applies to investor-owned utilities and the debt cost of a not-for-profit entity such as the AESO may not be comparable.” ASBG/PGA/PICA further provided in an attachment a calculation of monthly interest rates derived from actual interest expense provided in Information Response ASBG-PGA.AESO-005 (a). The AESO explained in Information Response ASBG-PGA.AESO-002 (b) that its actual interest expense was affected by timing differences and represented both “variable interest costs (based on the debt balance and the borrowing rate) and fixed interest costs (comprising credit facility standby fees and fees
40 charged related to the letter of credit issued as security for operating reserve procurement).” The simple calculation of interest rates by ASBG/PGA/PICA may therefore not be representative of the rate applicable to incremental changes in deferral account balances. In any case, the AESO understands the debt rate established by AUC Rule 023 is generally intended to acknowledge the time value of money, to balance the interests of all affected
45 parties, and to provide a simple and objective means of establishing an appropriate rate. For these reasons, the AESO submits that calculating interest based on the rate recommended in AUC Rule 023 remains appropriate.



5 ASBG/PGA/PICA suggested (pages 7-8) that in the event the AUC approves the recognition of interest, the “interest consideration should only commence with the May 2005 payment relating to the metering correction....” Such an approach would ignore the material surplus balances that existed in the AESO’s deferral accounts during most months in 2004. As provided in Table 2-2 (Application, page 18), the average deferral account balance was a \$12.3 million surplus during 2004. The AESO submits that it is appropriate to calculate interest on those surpluses that existed in 2004 that were not settled until July 2008, for the reasons summarized in section 4 of the AESO’s Argument (pages 8-10).

10 Finally, ASBG/PGA/PICA suggested (page 8) that “losses revenues, costs and Rider E amounts need to be assessed and quantified to ensure equitable treatment for DTS customers.” The AESO notes that Rider E was approved in AUC Order U2005-464 on the AESO’s 2005-2006 GTA Second Refiling, after an extensive regulatory review process. The AESO’s calculation of Rider E in 2006 and subsequent years, and all relevant losses
15 revenue and cost amounts for those years, have also been provided quarterly on the AESO’s web site (available at www.aeso.ca by following the path Transmission ► Loss Factors ► Calibration Factors ► Archives). The AESO regularly consults with stakeholders on its loss factor and calibration factor processes, and any party may raise concerns as part of that process. The AESO accordingly submits that it would be premature to make any
20 determination with respect to Rider E in this proceeding, which deals with reconciliation of deferral accounts managed through Rider C. Concerns related to Rider E should instead be brought to the AESO in its loss factor consultation or raised as a result of information provided by the AESO with respect to the loss factor and calibration factor amounts.



3 MATTERS RAISED IN ARGUMENT OF THE CITIES

5 The Cities primarily opposed the AESO's proposed redistribution of interest "on the fundamental principle that interest on deferral account balances is inappropriate in the case of a not-for-profit entity such as the AESO." (page 1)

10 The Cities correctly stated (page 1) that with redistribution of interest in an AESO deferral account reconciliation, "any interest payments to customers must be funded by other AESO customers." However, the Cities mistakenly concluded (page 1) that "[s]uch a transfer is unfair to those who must pay more than their actual contribution to deferral account balances..." In reality, without redistribution of interest, DTS customers will have paid **less** than their actual contribution should have been, since surpluses relating primarily to STS customers reduced the amount of interest expense that should have been allocated to DTS customers in the deferral account years included in the 2004-2007 Application. As the
15 AESO summarized in its argument (page 10), "[t]he 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." The AESO instead retained deferral account surpluses, which reduced interest expense. The AESO's proposed redistribution of interest in the Application corrects this
20 impact, such that DTS customers end up paying amounts reflective of what their actual contribution should have been.

25 The Cities also suggested (page 1) that the redistribution of interest "introduces a new price signal to which no AESO customer can respond." Although the AESO agrees that parties cannot respond to any deferral account amounts settled through retrospective reconciliation, the AESO disagrees that the redistribution of interest is a new signal. The AESO calculated interest (in the proposed redistribution of interest) in a manner consistent with how interest expense is actually incurred, but based on deferral account balances being maintained near zero consistent with the stated purpose of Rider C. The calculated interest expense was
30 then allocated to rate classes in accordance with the approved allocation of that cost. The AESO submits that the redistribution of interest is not a new signal of any sort, and is simply a reconciliation of amounts already recovered through revenue with amounts that should have been recovered through revenue, consistent with other variances addressed in the Application.

35 The Cities further suggested (page 1) that the redistribution of interest is inappropriate as the AESO's deferral account reconciliation must be "only based on the principles, methods, and calculations approved in the original tariff." However, AUC Rule 023 specifically contemplates (in section 3(2)(b)) payment of interest when regulatory lag exceeds a period
40 of twelve months. The AESO submits it is unreasonable to limit interest payment to cases where material regulatory lag was anticipated and approved in the original tariff. On the contrary, it is reasonable to include recognition of interest when deferral account reconciliations are applied for, as in the current Application. The AESO notes that there have been other changes to deferral account reconciliations approved as part of the AESO's
45 2000-2002 and 2003 deferral accounts reconciliation proceedings, and those changes were not specified in the AESO's original tariffs.

Finally, the Cities expressed concern (page 2) “that there is no firm policy for when the interest calculation might apply in the future.” The AESO proposed in its Application (pages 18-19) and summarized in its Argument (page 8) that interest would not apply to “normal” deferral account reconciliations where:

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

The AESO suggests the converse is equally implied: where such “normal” conditions are not met, the AESO would consider including recognition of interest in a deferral account reconciliation application. The AESO submits that this approach could be considered a policy proposal, and would not oppose the AUC formalizing it in its decision on the Application. However, the Cities themselves suggested (page 2) that a rigid policy may be inappropriate as it may result in interest not being recognized “either because the dollar amount was marginally smaller, the refund lag was marginally shorter, or the customer was simply not aware that they could have asked for and received similar treatment.” It may therefore be more reasonable to allow the AESO’s proposed conditions to provide general guidance, and to let the recognition of interest be argued, where appropriate, on its own merits as an exception in future deferral account reconciliations.



4 MATTERS RAISED IN ARGUMENT OF EPCOR

EPCOR argued in support of redistribution of interest, due to the extraordinary circumstances of the Application, consistency with AUC Rule 023, and regulatory precedent.

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The AESO considers EPCOR's argument to be generally supportive of the AESO's proposed interest redistribution, and agrees with EPCOR's recommendation (page 4) for "a methodology to calculate interest based on regulatory precedent...." The AESO submits its proposed redistribution of interest is based on and consistent with regulatory precedent, as discussed in section 4 of its Argument (pages 8-13).

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5 MATTERS RAISED IN ARGUMENT OF TRANSCANADA

5 TransCanada generally supported redistribution of interest but proposed a calculation methodology that differed from the AESO's proposal in several aspects, as discussed further below.

10 However, the AESO first notes its position, as stated in Argument (page 11), that interest should not be assessed on adjustments prior to account restatement where such adjustments result from AUC decisions. TransCanada stated in its argument (pages 20-21) that it has chosen not to pursue interest-related adjustments on such amounts. The AESO acknowledges TransCanada's position and will restrict its reply to the remaining matters raised by TransCanada in argument.

15 TransCanada (pages 13-14) attempted to compare the AESO's deferral account process to that of a person's bank account. The analogy of accidentally transferring money between two bank accounts is not comparable to maintaining a zero deferral account balance through Rider C charges and credits. Rider C is an approved methodology to manage deferral accounts, and results in an average charge or credit being determined by rate and rate component every calendar quarter. Since Rider C is an average charge or credit, it is to be expected that some customers will pay more, and others less, than would result from the full reconciliation filed in an application. However, such a result (which is a typical outcome arising from the average nature of the rider) would not generally attract interest in a final reconciliation. As noted in the Application (page 19), the AESO would not have proposed redistribution of interest "if deferral account balances [had] averaged near zero on a forecast basis".

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45 TransCanada also questioned (pages 19-20) the "significant timing differences on interest payments between STS and DTS customers" presented in Information Response TCE.AESO-004 and suggested such differences indicate the response "is not a reflection of TransCanada's recommended proposal." The AESO submits that its information response is entirely reflective of TransCanada's proposal. Consider the following example, treated as proposed by TransCanada. A metering error occurred in 2002 that resulted in an "overpayment" by STS customers. That "overpayment" was retained by the AESO (that is, not refunded through Rider C nor settled through deferral account reconciliation) until interim settlement in July 2008. In a year during which the "overpayment" was retained, such as 2007, the associated redistribution of interest would result in interest accruing to STS customers and being charged to DTS customers. However, the interest accruing to STS customers would be allocated back to the original production year of 2002. The metering error would therefore result in an interest credit to STS customers in 2002, and an interest charge to DTS customers in 2007. This approach is consistent with the argument of TransCanada, and is clearly laid out in the schedules provided in Information Response TCE.AESO-004. The approach would generally lead to significant timing differences, and the AESO submits that the information presented in the information response is a sufficient basis upon which the AUC may rest its decision.

The AESO in its Argument (page 11) identified three primary aspects where TransCanada's proposal differed from the AESO's:

- TransCanada proposed that interest be paid prior to account restatements.
- TransCanada proposed that interest be calculated on adjustment amounts rather than deferral account balances.
- TransCanada proposed that interest be calculated on amounts accruing in 2007 and 2008.

TransCanada continued to suggest those aspects were appropriate in its argument, and the AESO offers the following reply to specific matters raised by TransCanada.

5.1 Interest Prior to Account Restatements

TransCanada recommended (page 20) "that interest charges should be calculated from the date that losses were incorrectly charged (due to meter errors and other causes) until the date a remedy is implemented" and that "the remedy is to charge those customers who underpaid on their losses and refund those customers who overpaid on their losses." The AESO interprets this recommendation as proposing that interest be calculated on all account restatements related to losses. Based on the list of losses-related adjustments provided by TransCanada in Table TCE-2 (pages 18-19), this would include all losses adjustments in interim settlement (Item 8), in final settlement (Item 9), in post-final adjustment mechanisms (PFAMs) (Item 7), and resulting from government-requested suspension of settlement processes (Item 4). The AESO submits that calculating interest on any of those adjustments does not appear to be contemplated in the Settlement System Code, the ISO Rules, legislation, or government policy. In particular, the calculation of interest in interim and final settlement would be a significant change to longstanding settlement practices and would have impacts beyond deferral account reconciliations. As further noted in the AESO's Argument (page 11), such calculation of interest would also be inconsistent with the approved terms and conditions of several distribution utilities in Alberta.

The remaining items in Table TCE-2 (Items 1/6 and 2/3/5) were also essentially post-final adjustments. Their only distinction in the table is that they constitute adjustments that were greater than \$0.2 million (the threshold noted in Item 7). The AESO submits that there is no evidence on the record in this proceeding that such a level is appropriate as a threshold for the calculation of interest, and such a threshold is also not provided in AUC Rule 023 or elsewhere. If the AUC considers that interest should be added to such PFAM adjustments, the AESO reiterates the recommendation provided in its Argument (page 11) that such determination should be made only after all potentially-affected parties have had an opportunity for full debate on the matter.

TransCanada suggested AUC Decision 2003-054 on the AESO's Article 24 Refund provides appropriate precedent for implementing a practice of charging interest on account restatements related to losses. With respect, the AESO considers the Article 24 Refund proceeding to have allowed an opportunity for full debate between all potentially-affected parties. That decision also arose from a specific request to address a matter under the AESO's terms and conditions of service (that matter being compensation for transmission must run (TMR) service). The AESO submits that the Article 24 Refund proceeding was more extensive than the current proceeding, addressed a single event, and should not be

used as precedent for changes to a long-standing practice that will result in significant and far-reaching revisions to on-going processes.

5 The AESO suggests that a more relevant precedent is provided by AUC Decisions 2003-099 and 2005-034 on the AESO's 2000-2002 and 2003 deferral account reconciliations, respectively. The applications in both of those proceedings included adjustments arising from interim and final settlements and from PFAMs. Neither decision determined that interest should be calculated on such adjustments between the time an amount was first (incorrectly) billed and the time it was later (correctly) billed on an account restatement. The AESO submits that similar treatment is therefore appropriate in this proceeding, and that interest should not be charged on account restatements. (The exception, of course, would be matters subject to specific determination by the AUC, as in the Article 24 Refund proceeding.)

15 **5.2 Interest on Adjustment Amounts Rather Than Deferral Account Balance**

At the beginning of this section the AESO acknowledged that TransCanada has chosen not to pursue interest on adjustments resulting from AUC decisions, and has instead "focused on adjustments to losses..." (page 21). The AESO agrees that adjustments resulting from AUC decisions should not have interest assessed prior to account restatements. Focussing solely on adjustments to losses highlights the distinction between calculating interest on deferral account balances and calculating interest on adjustments.

25 The AESO's proposal is that interest should be calculated on deferral account balances from the date of the financial obligation (as discussed in Information Response TCE.AESO-001 (a-b), and typically identified in an account restatement) until those balances are distributed to or recovered from customers. The deferral account balances should include wires-related, ancillary services, and other costs, as well as losses. However, interest should not be assessed prior to account restatements, for the reasons summarized in section 4.1 (page 11) of the AESO's Argument.

TransCanada's position in argument is that interest should be calculated only on losses-related adjustments, starting from the date an incorrect bill is initially issued until amounts related to the correction of that bill are distributed to or recovered from customers.

35 TransCanada is apparently no longer concerned if the AESO retains material deferral account surpluses resulting from AUC decisions. The AESO submits that such a position is not defensible, as the substance of the interest redistribution concern is the existence of large deferral account balances over extended periods of time, regardless of the source of those balances. As the AESO explained in Argument (page 10), its proposal redistributes interest in a manner "similar to how interest expense would have been incurred had the balances been maintained at zero through Rider C charges or credits." (Argument, page 10) The AESO submits that all deferral accounts arising from all causes should be included and treated consistently as in the AESO's proposal.

45 The AESO in its Argument (page 12) also observed that the AUC typically assessed interest in other deferral account reconciliations on the net deferral account balance and not on individual adjustments. The AESO referred to Decision 2002-026 and Order U2006-323 as

5 examples of such determinations. TransCanada (page 9) provided an additional example in its reference to Decision 2003-071 on the ATCO Electric 2001 Deferral Application, and summarized, “The AEUB approved carrying costs...**should be calculated on the monthly outstanding balance (excluding carrying costs)**...” (bolding added) TransCanada’s own example supports the AESO’s proposed method of calculating interest, rather than TransCanada’s proposal to calculate interest on adjustment amounts.

10 In particular, TransCanada suggested (pages 15-16) that interest should be paid on the \$7.6 million amount identified as Item 6 in Information Response TCE.AESO-004 (a). This amount arises from metering adjustments relating to the 2004 production year. These amounts were identified in 2004, included on an account restatement in 2004, and addressed in large part through Rider C credits in 2004. Addressing an adjustment amount wholly within a 12-month period through Rider C would not generally be considered an extended period for deferral account settlement, and specifically would not exceed the 12-month consideration for excessive regulatory lag discussed in AUC Rule 023.

20 TransCanada also presented conflicting information in its recommendations for the calculation of interest. TransCanada first correctly pointed out (page 12) that “even where the AESO deferral account balances can be zero or minimal, a group of customers can be owed a substantial amount of money, which is offset by another group of customers who owe a substantial amount of money.” TransCanada then suggested that interest should be calculated on the amounts owed by the second group of customers and be refunded to the first group of customers. However, the AESO manages deferral account balances through Rider C charges and credits. TransCanada evidently does not propose that interest be calculated on amounts addressed through Rider C and said (page 23), “TransCanada is not requesting an interest payment on funds that have already been returned to it and other customers through deferral account riders (such as Rider B and C). Nor is TransCanada seeking an opportunity to retroactively add interest to the shortfalls or surpluses managed through those riders.” The AESO suggests that if interest is not to be calculated on funds that have been returned through Rider C, then it must be calculated only on deferral account balances remaining net of Rider C charges and credits. Those are the balances summarized in Table 2-2 (Application, page 18) on which the AESO calculated interest for its proposed interest redistribution.

35 Finally, TransCanada drew attention (page 17) to the AESO’s holding of “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” and suggested that the AESO “reimburse STS customers an interest payment for the use of these funds during this time period.” That is exactly what is done in the AESO’s interest redistribution. Funds held by the AESO result in the deferral account surpluses provided in Table 2-2 (Application, page 18). The AESO calculated interest on those surpluses and allocated it to the rate classes which funded the surpluses, which are STS customers for surpluses related to losses. TransCanada therefore appeared to support the AESO’s approach in that portion of its argument.

5.3 Calculation of Interest on Amounts Accruing in 2007 and 2008

5 TransCanada repeatedly overstated, either directly or indirectly, the impacts of the loss-related adjustments in the Application by including amounts accruing in 2007 and 2008. For example, TransCanada stated (page 3) that “large portions of this [adjustment] amount have been outstanding for years.” TransCanada then provided Table TCE-1 (page 5) which included as its last column the allocation of \$53.3 million of losses adjustments to production years, as provided in the AESO’s Information Response TCE.AESO-004.

10 However, much of the \$53.3 million had not been “outstanding for years”. In fact, some of the amount had only been outstanding for a few months. In particular, the \$6.1 million of TA Adjustments identified as Item 4 in Schedule TCE.AESO-004 was removed from suspension in April 2008 and settled with customers on an interim basis in July 2008, a period of only three months. Similarly, the \$6.9 million and \$2.3 million of losses adjustments identified as
15 Items 8 and 9 were settled with customers in the course of interim and final settlements and remained outstanding for no more than three or seven months, respectively. Finally, portions of the remaining losses adjustments were refunded to customers through Rider C in a subsequent calendar quarter, as discussed in the third point of the AESO’s preamble to Information Response TCE.AESO-002. Those portions refunded through Rider C were
20 therefore outstanding for less than six months. In summary, the amounts that remained “outstanding for years” are more accurately represented by Table 2-2 in section 2 (page 18) of the AESO’s Application.

25 TransCanada also overstated regulatory lag (page 6) by suggesting “the regulatory lag far exceeds twelve months” for the overall deferral account adjustment of \$51.1 million addressed in the 2004-2007 Application. The regulatory process under which the AESO’s deferral accounts are expected to be settled includes a reconciliation application in the following year. The AESO considers that when such an application is filed in the following year, no regulatory lag exists as the timing is expected as part of the normal regulatory
30 process. The AESO accordingly submits that when adjustments are paid or received by the AESO and then included in a deferral account reconciliation in the following year, such adjustments are not subject to “regulatory lag”. The \$6.1 million of TA Adjustments (Item 4) and the \$6.9 million and \$2.3 million of interim and final losses adjustments (Items 8 and 9) discussed in the preceding paragraph are examples of amounts settled through the normal
35 regulatory process. The AESO submits that those and similar amounts have not be subject to significant delays as a result of the regulatory process, and should therefore be excluded from any consideration of regulatory lag.

40 Finally, TransCanada (page 9) provided the 2000 Pool Price Deferral Accounts as an example of an exception to the twelve-month regulatory lag required by AUC Rule 023 before payment of interest should be considered. In Decision 2001-093, the AUC cited “rapid and unexpected further increases in the pool price” (page 55) as a consideration in its approval of carrying costs on the deferral accounts. With respect, deferral accounts in which over \$400 million accrue in one year is not comparable to a multi-year reconciliation of \$51.1
45 million, where the average surplus balance is \$11.3 million (Application, page 18). The AESO submits that the balances of the 2004-2007 deferral accounts do not require the AUC to vary from the guidelines established in AUC Rule 023.



6 CONCLUSION

5 The AESO submits that no party has raised in their argument a sufficient or reasonable basis that would warrant correction or revision to the proposals included in the AESO's 2004-2007 Deferral Account Reconciliation Application.

10 The AESO therefore reiterates, as it earlier submitted in Argument, that its 2004-2007 Application should be approved as filed, that the relief requested in section 1.4 (pages 11-12) of the Application should be granted in full, and that the distribution of the deferral account balances approved on an interim basis in Order U2008-253 should be confirmed as final.