March 12, 2009

Participants in AESO 2008 Deferral Account Reconciliation Consultation
AEO Stakeholders

Dear Stakeholder:

Re: Request for Comments on AESO 2008 Deferral Account Reconciliation Application and Related Deferral Account Matters

On March 3, 2009, the AESO met with interested stakeholders to review information being prepared for the AESO’s 2008 deferral account reconciliation (“DAR”) application as well as other related deferral account matters. The AESO is now seeking further comments from stakeholders on certain topics discussed during that meeting. The AESO invites stakeholders to provide comments by Friday, March 27, 2009, using the accompanying form.

Stakeholders may first wish to review the information presented at the meeting, which is available on the AESO website at www.aeso.ca by following the path Tariff Current Applications 2008 Deferral Account Reconciliation. The following discussion identifies which slides in the presentation are relevant to each topic.

Based on discussion at the meeting, the AESO has reached the following conclusions on some of the topics covered in the presentation. Although the AESO is not requesting additional comments from stakeholders on these conclusions, stakeholders may provide comments if they wish in the last section of the comment form.

(a) The removal of interest redistribution as part of the 2008 DAR application is a practical and efficient approach to complying with the direction of the Alberta Utilities Commission (“AUC”) in Decision 2009-010 (slides 10-12). The AUC’s letter of February 24, 2009, on the AESO’s 2004-2007 DAR application permits the AESO’s proposed approach.

(b) A technical meeting is a worthwhile opportunity to review the 2008 DAR application with the AESO and potentially avoid the need for information requests on the application and further improve the efficiency of the regulatory proceeding (slide 35). The AESO will therefore plan to hold a technical meeting on the 2008 DAR application about two weeks after the application is filed.

(c) Given the limited scope of the DAR application, there seemed little opportunity to gain efficiency by pursuing alternatives to a regulatory proceeding such as a negotiated settlement (slide 35). The application should be able to be addressed through a written proceeding, however, with no need for an oral hearing.
The AESO plans to file its 2008 DAR application in April 2009, and requests comments from stakeholders on the following topics for consideration in the preparation of that application.

1 **Immediate Interim Settlement of Deferral Account Balances (Slide 9)**

The AESO proposes to file as part of its 2008 DAR application a request for interim approval to immediately settle deferral account balances with customers. This would be similar to the immediate interim settlement requested and approved as part of the 2004-2007 DAR application. Based on a preliminary reconciliation, the AESO expects the 2008 DAR application to address the collection of about a $6.4 million shortfall from customers. The AESO considers this amount to be probable and material.

The AESO notes that no material concerns were expressed with the reconciliation and allocation methodology in the 2004-2007 DAR application, other than the proposed redistribution of interest which is being removed in the 2008 application. As the same methodology is being used for the 2008 DAR application, the AESO does not anticipate concerns with the reconciliation and allocation of 2008 balances. The AESO also considers that settling deferral account balances on an interim basis will allow settlement several months earlier than waiting for final approval of the application, and will result in rate stability and intergenerational equity.

The AESO further proposes to continue the practice of requesting immediate interim settlement at the time of filing all future DAR applications, barring unforeseen reasons to do otherwise.

However, some stakeholders suggested the circumstances of the 2008 application are different than those of the 2004-2007 application, and wished additional time after the meeting to consider the matter. The AESO is now seeking comments from stakeholders with respect to its proposal to request interim approval to immediately settle 2008 DAR amounts with customers.

2 **Exclusion of Year-End Balances From Q1 Rider C (Slide 39)**

For the first time in 2009, the AESO excluded the prior year’s year-end deferral account balances from the calculation of the first quarter Rider C amounts. Doing so allowed the AESO to begin preparation of its 2008 DAR application in February 2009, instead of waiting until May 2009 after settlement of first quarter revenue. Prior to this change, the AESO conducted limited informal consultation on the change and encountered no strong objections, and posted background information for the change on the AESO’s website on December 30, 2008.

Traditionally, the first quarter Rider C amounts have included prior years’ year-end balances as well as forecast deferral account balances for the first quarter. The AESO notes that in prior years, DAR applications have been filed later in the year, with the earliest such filings being in June 2004 for the 2003 DAR application and in June 2008 for the 2004-2007 DAR application.

For future years, the AESO also proposes to exclude year-end balances from the calculation of first quarter Rider C amounts and to file DAR applications in April. The AESO considers that excluding year-end balances provides a single accurate reconciliation and allocation of year-end balances and settles deferral account balances with customers earlier than would otherwise be possible.
3  Inclusion of Prior Year Balances in Q2, Q3, and Q4 Rider C (Slide 40)

Since 2004, Rider C amounts have been calculated to include current year deferral account balances only, with the exception of the first quarter Rider C which traditionally included both the prior year’s year-end balance and the current year balance forecast for the first quarter. The AESO is considering whether this approach should be changed, such that prior year balances applicable to DTS customers are included in Q2, Q3, and Q4 Rider C whenever transactions in the current year affect a prior production year. (Any adjustments applicable to STS customers in years prior to 2006 would not be included in current Rider C calculations but would be addressed in the next DAR application.)

Including prior year adjustments in current year Rider C calculations would have the following effects.

- Rider C amounts would be settled with customers in the current year and resettled with customers for the prior period production year in the next DAR application, thus creating a timing misalignment between Rider C and DAR settlement. This concern may not be material as DTS customers are generally stable year-over-year and would experience comparable allocations no matter which year was the basis for settlement. However, the concern may be important to DTS customers who have seasonal load profiles, in as much as settlement through Rider C would occur in the quarter in which the adjustment was included in the rider.

- Prior year adjustments would be settled earlier when included in Rider C calculations, compared to waiting for settlement in a DAR application. The greatest delay would occur if a prior year adjustment occurred in January, which would be settled from April to June when included in Rider C or in May of the following year through a DAR application (assuming immediate interim settlement of the DAR application).

- Rider C amounts would be settled with customers based on $/MWh charges or credits in the current year and resettled with customers through allocation of deferral account balances based on revenue in the next DAR application. The initial Rider C settlement is comparatively imprecise and interim compared to the final reconciliation, although no more so than settlement of current year balances through Rider C.

Based on discussion at the consultation meeting and the comments provided above, the AESO proposes to change its current practice to include prior year balances in the calculation of Q2, Q3, and Q4 Rider C amounts. (For the reasons provided in item 2 above, prior year year-end balances would be excluded from the calculation of Q1 Rider C.) Before finalizing this change, however, the AESO would appreciate receiving stakeholder comments to ensure all impacts are appropriately considered.

4  Alternatives to Full Reconciliations (Slides 41-46)

The AESO reviewed alternatives to the current approach of repeating full reconciliations for multiple deferral account years in each DAR application. As more years are added to each application, the volume of information being dealt with becomes more unwieldy, more cumbersome to present, and more difficult for stakeholders to effectively review. The AESO is not proposing any change to this approach for its 2008 DAR application, but suggests it may be worthwhile to consider alternatives to full reconciliations for future DAR applications.
The AESO proposes to conduct more detailed stakeholder consultation on alternatives to full reconciliations in future consultation prior to preparing its 2009 DAR application. However, stakeholders are invited to provide any preliminary comments they might have on this topic at this time.

5 Potential Changes to Riders B and C (Slides 47-48)

The AESO provided some preliminary comments on potential changes to Riders B and C to improve the effectiveness of those riders. Based on discussion at the meeting, the AESO concluded that any review of Riders B and C should be conducted in conjunction with preparation of the AESO’s 2010 general tariff application (“GTA”). Consultation for the AESO’s 2010 GTA has already begun, and the AESO will include discussion of potential changes to Riders B and C in that consultation, either with all stakeholders or through a smaller working group. Stakeholders are invited to provide any preliminary comments they might have on this topic at this time.

The AESO invites interested stakeholders to provide comments on the above topics using the accompanying comment form. The AESO requests that comments be provided by e-mail to john.martin@aeso.ca by Friday, March 27, 2009, as instructed on the form. Comments may also be submitted by fax to 403-539-2524.

The AESO will post all received comments on its website, as well as consolidate the comments and provide responses to them as appropriate.

All information relating to the AESO’s 2008 deferral account reconciliation application, including this consultation, will be available on the AESO website at www.aeso.ca by following the path Tariff ► Current Applications ► 2008 Deferral Account Reconciliation. As well, new information posted by the AESO on this topic will be mentioned in the AESO’s weekly stakeholder update, which you can subscribe to by clicking “Sign-up for our weekly email update” at the lower right of the AESO’s home page at www.aeso.ca.

If you have any questions on the AESO’s 2008 deferral account reconciliation application, please contact me at 403-539-2465 in Calgary or by e-mail to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
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cc: Carol Moline, Director, Accounting & Treasury, AESO