April 9, 2009
Submitted via AUC Digital Data Submission (DDS) System

Dear Sir or Madam:

Re: AESO 2008 Deferral Account Reconciliation Application

Please find enclosed the 2008 Deferral Account Reconciliation Application of the Alberta Electric System Operator (“AESO”). This application is made pursuant to sections 30 and 119 of the Electric Utilities Act (“EUA”) under which the AESO prepares, submits, and receives approval from the Alberta Utilities Commission (“AUC”) for a tariff, having regard to section 14 of the EUA which prescribes that “on an annual basis, no profit or loss results from its [the AESO’s] operation.”

This application includes a request for approval to collect and refund the customer amounts included in the application as soon as practical on an interim refundable basis, with such amounts subject to adjustment in final approvals following a full regulatory review, as described in section 11 of the application. Section 1.2 of the application discusses how interim settlement will fulfill the objectives of prompt and accurate settlement of the outstanding deferral account balances with customers. The AESO requests interim approval be granted by mid-June to allow settlement on invoices issued in June 2009.

This is a comprehensive application, and includes the determination of and allocation to customers of a $6.4 million net deferral account shortfall, in respect of the following deferral account amounts (net of Rider C charges and refunds and any prior deferral account reconciliation settlements):

- a shortfall of $4.6 million from a first reconciliation of the deferral account for 2008,
- a shortfall of $1.4 million from a second reconciliation of the deferral account for 2007,
- a surplus of $2.0 million from a second reconciliation of the deferral account for 2006,
- a surplus of $1.4 million from a second reconciliation of the deferral account for 2005,
- a surplus of $0.1 million from a second reconciliation of the deferral account for 2004,
- a shortfall of $1.6 million from a third reconciliation of the deferral account for 2003, and
- a shortfall of $2.2 million from reconciliations of adjustments to deferral accounts for 2002 and 2001.
These amounts are net of the removal of the interest redistribution proposed in the AESO’s 2004-2007 Deferral Account Reconciliation Application, in compliance with the AUC’s direction in Decision 2009-010 and as permitted by the AUC’s letter of February 14, 2009. The removal of the proposed interest redistribution is discussed in more detail in section 2.3 of the application.

The application includes several appendices providing details of calculations supporting the deferral account reconciliations and allocations to customers. As discussed in section 10.3 of the application, additional settlement point detail will be provided on request to customers, but is too extensive and detailed to be included with the application.

A technical meeting was held on the AESO’s previous 2004-2007 application, and the AESO considers that the meeting provided a valuable opportunity for participants to more fully understand the information included in the application. The AESO therefore recommends a technical meeting also be held on the 2008 application. The AESO suggests such a meeting could be held early in the week of May 4-8, to accommodate AUC and stakeholder involvement in other regulatory proceedings.

Based on the written review provided for the 2004-2007 application, the AESO suggests this application also be reviewed through a written proceeding.

Please direct all correspondence relating to this application to:

John Martin       Carol Moline
Director, Tariff Applications     Director, Accounting & Treasury
Alberta Electric System Operator     Alberta Electric System Operator
2500, 330 – 5th Avenue SW 2500, 330 – 5th Avenue SW
Calgary, Alberta T2P 0L4 Calgary, Alberta T2P 0L4
Phone: 403-539-2465 Phone: 403-539-2504
Fax: 403-539-2524 Fax: 403-539-2612
Email: john.martin@aeso.ca Email: carol.moline@aeso.ca

April Walters
Executive Assistant, Regulatory
Alberta Electric System Operator
2500, 330 – 5th Avenue SW
Calgary, Alberta T2P 0L4
Phone: 403-539-2463
Fax: 403-539-2524
Email: april.walters@aeso.ca

If you need any additional information, please contact April Walters at 403-539-2463 in Calgary or by email to april.walters@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO
    Carol Moline, Director, Accounting & Treasury, AESO
    April Walters, Executive Assistant, Regulatory, AESO


Alberta Electric System Operator
2008 Deferral Account Reconciliation
Application

April 9, 2009
# CONTENTS

1 Application .......................................................................................................................... 6  
  1.1 Background ................................................................................................................. 6  
  1.2 Immediate Interim Settlement With Customers ......................................................... 8  
  1.3 Organization of This Application ............................................................................ 9  
  1.4 Relief Requested ....................................................................................................... 10  

2 Summary of Deferral Account Reconciliation Process ................................................ 12  
  2.1 Data Included in This Application ........................................................................ 12  
     2.1.1 Significant Prior Period Adjustments ......................................................... 13  
     2.1.2 Transmission System Losses .................................................................... 14  
     2.1.3 Adjustments Not Included ................................................................. 14  
  2.2 Production Month Presentation .............................................................................. 14  
  2.3 Removal of Redistribution of Interest .................................................................... 16  
  2.4 Deferral Account Balances for 2001 to 2008 ....................................................... 19  
  2.5 Cost Prudency Considerations .............................................................................. 24  
  2.6 Reconciliation to Financial Statements .............................................................. 25  
  2.7 Allocation to and Settlement With Customers .................................................... 25  
  2.8 Future Deferral Account Reconciliations ............................................................... 26  

3 2008 Financial Results and Deferral Account Balance .................................................. 28  
  3.1 2008 Cost Variances .............................................................................................. 28  
     3.1.1 Wires Costs ....................................................................................... 32  
     3.1.2 Ancillary Services ............................................................................ 34  
     3.1.3 Other Industry Costs ................................................................. 37  
     3.1.4 General and Administrative Costs .................................................. 38  
     3.1.5 Capital .......................................................................................... 39  
  3.2 2008 Revenue Variances ....................................................................................... 41  
  3.3 2008 Deferral Account Balance .......................................................................... 42  

4 2007 Financial Results and Deferral Account Balance .................................................. 44  
  4.1 2007 Deferral Account Second Reconciliation ................................................... 44  
  4.2 2007 Cost Adjustments After First Reconciliation .............................................. 45  
     4.2.1 Wires Costs ....................................................................................... 48  
     4.2.2 Ancillary Services ............................................................................ 49  
     4.2.3 General and Administrative Costs .................................................. 50  
  4.3 2007 Revenue Adjustments After First Reconciliation ....................................... 50  
  4.4 2007 Second Reconciliation Deferral Account Balance .................................... 52  

5 2006 Financial Results and Deferral Account Balance .................................................. 54  
  5.1 2006 Deferral Account Second Reconciliation ................................................... 54  
  5.2 2006 Cost Adjustments After First Reconciliation .............................................. 55  
     5.2.1 General and Administrative Costs .................................................. 58  
  5.3 2006 Revenue Adjustments After First Reconciliation ....................................... 59  
  5.4 2006 Second Reconciliation Deferral Account Balance .................................... 60
6  2005 Financial Results and Deferral Account Balance ............................................. 63
   6.1  2005 Deferral Account Second Reconciliation .............................................. 63
   6.2  2005 Cost Adjustments After First Reconciliation ......................................... 64
       6.2.1  General and Administrative Costs .................................................. 67
   6.3  2005 Revenue Adjustments After First Reconciliation .................................... 68
   6.4  2005 Second Reconciliation Deferral Account Balance .................................. 70

7  2004 Financial Results and Deferral Account Balance ............................................. 72
   7.1  2004 Deferral Account Second Reconciliation .............................................. 72
   7.2  2004 Cost Adjustments After First Reconciliation ......................................... 73
       7.2.1  General and Administrative Costs .................................................. 76
   7.3  2004 Revenue Adjustments After First Reconciliation .................................... 77
   7.4  2004 Second Reconciliation Deferral Account Balance .................................. 79

8  2003 Financial Results and Deferral Account Balance ............................................. 81
   8.1  2003 Deferral Account Third Reconciliation ................................................ 81
   8.2  2003 Cost Adjustments After First Reconciliation ......................................... 82
       8.2.1  General and Administrative Costs .................................................. 86
   8.3  2003 Revenue Adjustments After Second Reconciliation .............................. 86
   8.4  2003 Third Reconciliation Deferral Account Balance .................................... 88

9  Pre-2003 Deferral Account Adjustments ................................................................... 91
   9.1  2002 Deferral Account Adjustments .............................................................. 92
   9.2  2001 Deferral Account Adjustments .............................................................. 93

10 Allocation to Customers ....................................................................................... 95
    10.1 Allocation of 2003 to 2008 Deferral Account Balances .................................... 95
    10.2 Allocation of Prior-Year Deferral Account Adjustments .................................. 96
    10.3 Provision of Customer Allocation Information ............................................ 96
    10.4 Application of GST to Deferral Account Balances ........................................ 97

11 Proposed Method of Refunding and Collecting ..................................................... 98
    11.1 Immediate Interim Settlement ...................................................................... 98

12 Responses to Directions ...................................................................................... 100

Appendix A 2008-2009 Stakeholder Consultation ...................................................... 103
    A-1 Excluding Prior Year-End Balance From Q1 2009 Rider C ........................... 103
    A-2 2008 Deferral Account Reconciliation Application and Related Matters .... 104

Appendix B Reconciliation to Income Statements
    B-1 2001 and 2002 Adjustment Detail
    B-2 2003 to 2008 Reconciliation to Audited Income Statements

Appendix C 2003 to 2008 Reconciliation to Audited Balance Sheets
Appendix D  AESO Financial Statements and Annual Reports
   D-1  2008 Management Discussion and Analysis and Audited Financial Statements
   D-2  2007 Annual Report
   D-3  2006 Annual Report
   D-4  2005 Annual Report
   D-5  2004 Annual Report
   D-6  2003 Annual Report

Appendix E  Miscellaneous Reconciliations
   E-1  Inter-Year Adjustments Reconciliation (1999 to 2008)
   E-2  Rider Reconciliation (2003 to 2008)
   E-3  Interconnection Charges Reconciliation (2003 to 2008)
   E-4  Other Revenue Detail (2003 to 2008)

Appendix F  Line Loss Charges
   F-1  Line Loss Charges Reconciliation (2002 to 2005)
   F-2  Transmission Line Losses by Production Month (2002 to 2005)

Appendix G  Removal of Interest Redistribution

Appendix H  Summary — Customer Deferral Account Balances
   H-1  2001-2008 Grand Total
   H-2  2001-2008 Totals by Year
   H-3  2008 — By Customer and Rate Category
   H-4  2007 — By Customer and Rate Category
   H-5  2006 — By Customer and Rate Category
   H-6  2005 — By Customer and Rate Category
   H-7  2004 — By Customer and Rate Category
   H-8  2003 — By Customer and Rate Category
   H-9  2002 — By Customer and Rate Category
   H-10 2001 — By Customer and Rate Category

Appendix I  Guide to Report Layouts and Calculations for Appendices H to J
   I-1  Comparison of Report Layouts Between Years
   I-3  DTS Example (2002) — Monthly to Annual Reports
   I-4  DTS Example (2001) — Monthly to Annual Reports
   I-5  Losses Example (2005-2003) — Monthly to Annual Reports
   I-6  Losses Example (2002) — Monthly to Annual Reports
   I-7  Losses Example (2001) — Monthly to Annual Reports
Appendix J  Annual — Customer Allocation of Deferral Account Balances
  J-1  2008
  J-2  2007
  J-3  2006
  J-4  2005
  J-5  2004
  J-6  2003
  J-7  2002
  J-8  2001

Appendix K  Monthly — Customer Allocation of Deferral Account Balances
  K-1  2008
  K-2  2007
  K-3  2006
  K-4  2005
  K-5  2004
  K-6  2003
  K-7  2002

Appendix L  STS Customer Losses Allocation Detail
  L-1  2005
  L-2  2004
  L-3  2003
  L-4  2002
  L-5  2001 (Annual and Quarterly)
# TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2-1</td>
<td>Summary of Deferral Account Attribution Characteristics, 2001-2008</td>
<td>16</td>
</tr>
<tr>
<td>Table 2-2</td>
<td>Redistribution of Interest Proposed in 2004-2007 Application, $ 000 000</td>
<td>17</td>
</tr>
<tr>
<td>Table 2-3</td>
<td>Removal of Redistribution of Interest, $ 000 000</td>
<td>17</td>
</tr>
<tr>
<td>Table 2-4</td>
<td>Allocation of Removed Interest Increases (Decreases) to Rates and Rate Components, $ 000 000</td>
<td>18</td>
</tr>
<tr>
<td>Table 2-5</td>
<td>Summary of 2008 Deferral Account Reconciliation Application, $ 000 000</td>
<td>20</td>
</tr>
<tr>
<td>Table 2-6</td>
<td>Summary of 2004-2007 Deferral Account Reconciliation Application, $ 000 000</td>
<td>22</td>
</tr>
<tr>
<td>Table 2-7</td>
<td>Summary of 2008 Net Deferral Account Transactions Since 2004-2007 Deferral Account Reconciliation, $ 000 000</td>
<td>23</td>
</tr>
<tr>
<td>Table 3-1</td>
<td>2008 Revenue Requirement and Recorded Costs (Excluding Losses), $ 000 000</td>
<td>30</td>
</tr>
<tr>
<td>Table 3-2</td>
<td>2008 Base Rate Revenue Variances (Excluding Losses), $ 000 000</td>
<td>41</td>
</tr>
<tr>
<td>Table 3-3</td>
<td>2008 Deferral Account Summary (Excluding Losses), $ 000 000</td>
<td>43</td>
</tr>
<tr>
<td>Table 4-1</td>
<td>2007 First and Second Reconciliation Cost Variances (Excluding Losses), $ 000 000</td>
<td>46</td>
</tr>
<tr>
<td>Table 4-2</td>
<td>2007 First and Second Reconciliation Revenue Variances (Excluding Losses), $ 000 000</td>
<td>51</td>
</tr>
<tr>
<td>Table 4-3</td>
<td>2007 Second Reconciliation Deferral Account Summary (Excluding Losses), $ 000 000</td>
<td>52</td>
</tr>
<tr>
<td>Table 5-1</td>
<td>2006 First and Second Reconciliation Cost Variances (Excluding Losses), $ 000 000</td>
<td>56</td>
</tr>
<tr>
<td>Table 5-2</td>
<td>2006 First and Second Reconciliation Revenue Variances (Excluding Losses), $ 000 000</td>
<td>60</td>
</tr>
<tr>
<td>Table 5-3</td>
<td>2006 Second Reconciliation Deferral Account Summary (Excluding Losses), $ 000 000</td>
<td>61</td>
</tr>
<tr>
<td>Table 6-1</td>
<td>2005 First and Second Reconciliation Cost Variances, $ 000 000</td>
<td>65</td>
</tr>
<tr>
<td>Table 6-2</td>
<td>2005 First and Second Reconciliation Revenue Variances, $ 000 000</td>
<td>69</td>
</tr>
<tr>
<td>Table 6-3</td>
<td>2005 Second Reconciliation Deferral Account Summary, $ 000 000</td>
<td>70</td>
</tr>
<tr>
<td>Table 7-1</td>
<td>2004 First and Second Reconciliation Cost Variances, $ 000 000</td>
<td>74</td>
</tr>
<tr>
<td>Table 7-2</td>
<td>2004 First and Second Reconciliation Revenue Variances, $ 000 000</td>
<td>78</td>
</tr>
<tr>
<td>Table 7-3</td>
<td>2004 Second Reconciliation Deferral Account Summary, $ 000 000</td>
<td>80</td>
</tr>
<tr>
<td>Table 8-1</td>
<td>2003 Second and Third Reconciliation Cost Variances, $ 000 000</td>
<td>83</td>
</tr>
<tr>
<td>Table 8-2</td>
<td>2003 Second and Third Reconciliation Revenue Variances, $ 000 000</td>
<td>87</td>
</tr>
<tr>
<td>Table 8-3</td>
<td>2003 Third Reconciliation Deferral Account Summary, $ 000 000</td>
<td>89</td>
</tr>
<tr>
<td>Table 9-1</td>
<td>2002 and 2001 Deferral Account Adjustments Summary, $ 000 000</td>
<td>92</td>
</tr>
<tr>
<td>Table 9-2</td>
<td>2002 Deferral Account Adjustments, $ 000 000</td>
<td>93</td>
</tr>
<tr>
<td>Table 9-3</td>
<td>2001 Deferral Account Adjustments, $ 000 000</td>
<td>94</td>
</tr>
<tr>
<td>Table 11-1</td>
<td>Distribution of Charges and Refunds Among Customers</td>
<td>99</td>
</tr>
</tbody>
</table>
1 APPLICATION

1 This application is made pursuant to sections 30 and 119 of the Electric Utilities Act ("EUA"), S.A. 2003, c. E-5.1, under which the Alberta Electric System Operator ("AESO") prepares, submits, and receives approval from the Alberta Utilities Commission ("AUC") for a tariff, having regard to section 14 of the EUA which prescribes that "on an annual basis, no profit or loss results from its [the AESO's] operation."

2 The application seeks approval of the AESO’s:
   • first reconciliation of deferral accounts for 2008;
   • second reconciliations of deferral accounts for 2007, 2006, 2005, and 2004; and
   • third reconciliation of deferral accounts for 2003.
   The reconciliations for which approval is requested include the allocation, refund, and collection of reconciled variances arising between the actual costs the AESO has incurred in providing system access service and the forecast amounts recovered in rates charged to customers for those years.

3 The application also seeks approval of adjustments to the previously reconciled variances for the years 2002 and 2001, and for the allocation, refund, and collection of those adjustments.

1.1 Background

4 The AESO is a statutory, non-profit corporation established by section 7 of the EUA and provides system access service to customers pursuant to the EUA. Rates charged for service provided by the AESO are specified in the AESO’s tariff and are subject to regulation by the AUC under sections 30 and 119 of the EUA.

5 The AESO’s tariffs which were in place from 2003 through 2008 were approved in various decisions and orders of the AUC (where, for simplicity in this application, references to the AUC include the Alberta Energy and Utilities Board as its predecessor) as follows:
   • Decision 2002-087 dated October 8, 2002 (tariff effective November 1, 2002);
   • Decision 2003-077 dated November 4, 2003 (tariff effective December 1, 2003);
   • Decision 2003-099 dated December 16, 2003 (amendments effective January 1, 2004);
   • Order U2004-476 dated December 24, 2004 (tariff effective January 1, 2005);
   • Order U2005-464 dated December 20, 2005 (tariff effective January 1, 2006); and
   • Order U2008-217 dated June 25, 2008 (tariff effective August 1, 2008).

6 Since January 1, 1997, 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. Deferral accounts are necessary to ensure no annual profit or loss results from the AESO’s operation in accordance with section 14 of the EUA. 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.
Each of the tariffs in effect during the years addressed in this application included either or both of:

- a Working Capital Deficiency/Surplus Rider B “to recover unexpected increases in the AESO’s working capital deficiency or to refund unexpected surpluses of working capital” and “restore the AESO’s working capital deficiency to the AESO’s annual average forecast,” and
- a Deferral Account Adjustment Rider C “to recover or refund all accumulated deferral account balances” and “restore the deferral account balances to zero over the following calendar quarter or such longer period as determined by the AESO to minimize rate impact.”

These riders allow the AESO to manage its deferral account balances throughout the year. However, the AESO’s deferral accounts are also subject to later reconciliation, including approval of such reconciliation by the AUC. Under the deferral account methodology most recently approved by the AUC, the AESO reconciles, on a retrospective basis, the actual costs it has incurred in providing system access service to the revenues recovered in rates relating to provision of that service. For each 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 AESO also consulted with stakeholders in March 2009 on the 2008 deferral account reconciliation and related matters. Stakeholders generally supported the process presented for the development and filing of the 2008 application, which has accordingly resulted in the current application. As well, stakeholders did not indicate any concerns arising from the 2004-2007 application and proceeding which would have required changes to the 2008 deferral account reconciliation and allocation.

The AESO therefore provides in this application the first reconciliation of 2008 deferral account balances; a second reconciliation of 2007, 2006, 2005, and 2004 deferral account balances; and a third reconciliation of 2003 deferral account balances. The deferral account reconciliations have been prepared on a retrospective, monthly, and production month basis, consistent with the method used in the 2003 and 2004-2007 reconciliations as reviewed and approved by the AUC. More detailed discussion of the deferral account balances are provided in sections 3 (for 2008), 4 (for 2007), 5 (for 2006), 6 (for 2005), 7 (for 2004), and 8 (for 2003) of this application.

This application also includes deferral account adjustments relating to the years 2002 and 2001, prior periods during which deferral accounts were approved for the AESO. Adjustments for these prior years are addressed through a simplified approach described in section 9 of this application.
The reconciliations included in this application take into account AUC directions contained in its prior decisions on the AESO’s deferral account reconciliations. In particular, this application includes the AESO’s compliance with the direction in Decision 2009-010 to remove the redistribution of interest which had been proposed in the AESO’s 2004-2007 deferral account reconciliation application. The redistribution of interest had been included in the interim distribution of deferral account balances approved in Order U2008-253 dated July 17, 2008. Additional information on the AESO’s compliance with the AUC’s directions is provided in section 12 of this application.


The deferral account reconciliations, prior year adjustments, and allocations to customers provided in the body and appendices of this application have been prepared using a software program developed by the AESO from 2006 to 2007 specifically for this purpose. The program had also been used to prepare the AESO’s 2004-2007 deferral account reconciliation application, and this application follows the same methodology as the previous application which has been reviewed and approved by the AUC.

### 1.2 Immediate Interim Settlement With Customers

When the AESO filed its 2004-2007 deferral account reconciliation application on June 2, 2008, it also requested interim approval to immediately settle deferral account amounts with customers. The purpose of requesting the immediate settlement was to refund to customers the outstanding deferral account surplus (including material increases which occurred in late 2007 and early 2008) to the greatest extent possible without further delay. The AUC approved the interim distribution of deferral account balances in Order U2008-253 dated July 17, 2008.

The AESO similarly requests interim approval to immediately settle the current deferral account amounts with customers. The AESO notes that such settlement would be interim and refundable, and subject to adjustment in the final decision on the 2008 application following a full regulatory review.

The deferral account balances in this application are significantly smaller than those in the 2004-2007 application, and represent a net shortfall to be collected from customers rather than a net surplus to be refunded as in the 2004-2007 application. However, the AESO notes that stakeholders were supportive of interim approval to immediately settle the deferral accounts, in the consultation process held by the AESO in March 2009 and discussed briefly in section 1.1 above.

The deferral account balances in this application have been determined based on recorded costs paid and recorded revenues received by the AESO, and have been reconciled to the AESO’s financial statements in the appendices. The AESO considers that the $6.4 million net balance reconciled in this application represents a probable and material amount, and this is one reason it is appropriate to request interim approval.
The allocation of deferral account balances to customers has been prepared in this application using the same methodology, and the same software program, as in the 2004-2007 application. The AESO notes the AUC’s finding in Decision 2009-010 on the 2004-2007 application (page 6) “the customer deferral account balance allocations set out in the Application that do not relate to the AESO’s proposal to recognize interest should be approved as filed.” As the allocations in this application were prepared in the same manner and do not include recognition of interest, the AESO expects that they will also be found to be reasonable. The allocation should therefore result in rate stability and intergenerational equity, and this is another reason interim approval is appropriate.

Based on the above, immediate interim settlement will provide prompt and accurate settlement of the outstanding deferral account balances with customers, and, in the AESO’s view, is likely to render reasonable results in the immediate and longer term. The AESO has accordingly included a request for approval of immediate interim settlement of deferral account balances with customers in the relief requested in section 1.4 below.

1.3 Organization of This Application

This application is organized into the following sections:

1 Application — Provides background on the application and specifies the relief requested.

2 Summary of Deferral Account Reconciliation Process — Summarizes the process used to determine deferral account amounts and other considerations affecting the deferral account reconciliation process.


4 2007 Financial Results and Deferral Account Balance — Discusses adjustments to costs and revenues that occurred after the first 2007 deferral account reconciliation and provides the outstanding deferral account balances for 2007.

5 2006 Financial Results and Deferral Account Balance — Discusses adjustments to costs and revenues that occurred after the first 2006 deferral account reconciliation and provides the outstanding deferral account balances for 2006.

6 2005 Financial Results and Deferral Account Balance — Discusses adjustments to costs and revenues that occurred after the first 2005 deferral account reconciliation and provides the outstanding deferral account balances for 2005.

7 2004 Financial Results and Deferral Account Balance — Discusses adjustments to costs and revenues that occurred after the first 2004 deferral account reconciliation and provides the outstanding deferral account balances for 2004.
8 2003 Financial Results and Deferral Account Balance — Discusses adjustments to costs and revenues that occurred after the second 2003 deferral account reconciliation and provides the outstanding deferral account balances for 2003.

9 Pre-2003 Deferral Account Adjustments — Discusses adjustments to costs and revenues included in this application that relate to 2002 and 2001 and provides the outstanding deferral account balances for those years.

10 Allocation to Customers — Discusses the process by which deferral account balances are allocated to customers.

11 Proposed Method of Refunding and Collecting — Discusses the proposed method of refunding and collecting deferral account amounts.


The AESO therefore suggests this application be subject to approval through a written proceeding.

Based on the entirety of this application, and for the foregoing reasons, the AESO requests:

(a) Approval of the deferral account balance reconciliation calculations for the period January 1 to December 31, 2008 as described in section 3 of this application;

(b) Approval of the deferral account balance reconciliation calculations for the period January 1 to December 31, 2007 as described in section 4 of this application;

(c) Approval of the deferral account balance reconciliation calculations for the period January 1 to December 31, 2006 as described in section 5 of this application;
(d) Approval of the deferral account balance reconciliation calculations for the period January 1 to December 31, 2005 as described in section 6 of this application;

(e) Approval of the deferral account balance reconciliation calculations for the period January 1 to December 31, 2004 as described in section 7 of this application;

(f) Approval of the deferral account balance reconciliation calculations for the period January 1 to December 31, 2003 as described in section 8 of this application;

(g) Approval of the deferral account adjustment calculations for the period January 1, 2001 to December 31, 2002 as described in section 9 of this application;

(h) Approval of the customer allocation methodology as presented in section 10 and Appendices H through L of this application, for purposes of recovering and refunding outstanding variance amounts from and to the AESO’s DTS, FTS, and STS rate classes;

(i) Approval to collect and refund amounts through the use of a one-time payment/collection option similar to that used for previous years’ deferral account balances as more particularly described in section 11 of this application;

(j) Approval to collect and refund the customer amounts included in this application as soon as practical on an interim refundable basis, with such amounts subject to adjustment in final approvals following a full regulatory review, as described in section 11 of this application;

(k) Approval of the continuation of annual retrospective reconciliations of adjustments to losses relating to years prior to 2006 (notwithstanding the implementation of prospective Rider E for losses in 2006 and later years);

(l) Confirmation by the AUC of its acceptance of the AESO’s responses to outstanding directions provided in section 12; and

(m) Such further and other relief as the AUC may prescribe.

All of which is respectfully submitted this 9th day of April, 2009.

Alberta Electric System Operator

Per: ______________________________
Heidi Kirrmaier
Vice-President, Regulatory
2 SUMMARY OF DEFERRAL ACCOUNT RECONCILIATION PROCESS

The deferral account reconciliation process used for this application reflects prior AUC decisions, as well as conclusions reached during extensive stakeholder consultation on the AESO’s prior deferral account reconciliation application and the continued use of a software program to automate deferral account reconciliation calculations.

The deferral account reconciliation process used for this application, as described below, is the same as that used for the AESO’s 2004-2007 deferral account reconciliation application. The sole difference is that this application does not include any redistribution of interest as proposed in the 2004-2007 application, and in fact removes that redistribution of interest in compliance with the AUC’s direction in Decision 2009-010 as discussed in section 12 of this application.

2.1 Data Included in This Application

In addition to amounts settled in prior deferral account reconciliations for 2003 through 2007, this application incorporates all costs paid and revenues collected by the AESO that:

- have not been settled in prior deferral account reconciliation filings;
- relate to 2008 or prior years for all costs except those related to losses, and to 2005 and prior years for costs related to losses; and
- were accounted for up to December 31, 2008.

Specifically, the following data is included for the different components of this application:

(a) **2008 First Reconciliation** — This application reconciles all costs paid and revenues collected by the AESO with respect to 2008, excluding costs and revenues related to losses, from January 1 to December 31, 2008. The reconciliation therefore includes all 2008-related costs and revenues settled during calendar year 2008, which result in a 2008 deferral account balance shortfall of $4.6 million.

(b) **2007 Second Reconciliation** — This application reconciles all costs paid and revenues collected by the AESO with respect to 2007, excluding costs and revenues related to losses, from January 1, 2007 to December 31, 2008. The AESO notes that its previous 2004-2007 deferral account reconciliation application included all 2007-related costs and revenue, excluding costs and revenues related to losses, settled from January 1, 2007 to March 31, 2008. This current application incorporates all later adjustments (other than those relating to losses) for 2007 which occurred on or after April 1, 2008 and up to December 31, 2008, which result in a 2007 deferral account balance shortfall of $1.4 million.

(c) **2006 Second Reconciliation** — This application reconciles all costs paid and revenues collected by the AESO with respect to 2006, excluding costs and revenues related to losses, from January 1, 2006 to December 31, 2008. The AESO notes that its previous 2004-2007 deferral account reconciliation application included all 2006-related costs and revenue, excluding costs and revenues related to losses, settled from January 1, 2006 to March 31, 2008. This current application incorporates all
later adjustments (other than those relating to losses) for 2006 which occurred on or after April 1, 2008 and up to December 31, 2008, which result in a 2006 deferral account balance surplus of $2.0 million.

60  (d)  **2005 Second Reconciliation** — This application reconciles all costs paid and revenues collected by the AESO with respect to 2005, including those related to losses, from January 1, 2005 to December 31, 2008. The AESO notes that its previous 2004-2007 deferral account reconciliation application included all 2005-related costs and revenue, including losses, settled from January 1, 2005 to March 31, 2008. This current application incorporates all later adjustments for 2005 which occurred on or after April 1, 2008 and up to December 31, 2008, which result in a 2005 deferral account balance surplus of $1.4 million.

61  (e)  **2004 Second Reconciliation** — This application reconciles all costs paid and revenues collected by the AESO with respect to 2004, including those related to losses, from January 1, 2004 to December 31, 2008. The AESO notes that its previous 2004-2007 deferral account reconciliation application included all 2004-related costs and revenue, including losses, settled from January 1, 2004 to March 31, 2008. This current application incorporates all later adjustments for 2004 which occurred on or after April 1, 2008 and up to December 31, 2008, which result in a 2004 deferral account balance surplus of $0.1 million.

62  (f)  **2003 Third Reconciliation** — This application reconciles all costs paid and revenues collected by the AESO with respect to 2003, including those related to losses, from January 1, 2003 to December 31, 2008. The AESO notes that its previous 2004-2007 deferral account reconciliation application included all 2003-related costs and revenue, including losses, settled from January 1, 2003 to March 31, 2008. This current application incorporates all later adjustments for 2003 which occurred on or after April 1, 2008 and up to December 31, 2008, which result in a 2003 deferral account balance shortfall of $1.6 million.

63  (g)  **Allocation of Prior Year Adjustments** — Finally, this application allocates to customers all deferral account balance adjustments to costs and revenues with respect to 2001 and 2002, including those related to losses, which occurred on or after April 1, 2008 and up to December 31, 2008. The net impact of prior year adjustments is a deferral account balance shortfall of $2.2 million.

**2.1.1 Significant Prior Period Adjustments**

This application includes some significant amounts that were attributed to periods prior to 2008 under the production month presentation used in this application. Those significant prior period adjustments include the following:

- a $5.4 million charge accounted for in 2008 relating to costs for unforeseeable TMR services paid on an interim basis as far back as December 17, 2004 being adjusted under the pricing provisions approved in AUC Decision 2008-014 on the AESO’s Ancillary Services Article 11 Negotiated Settlement (discussed in more detail in section 4.2.2);
• a $2.2 million refund accounted for in 2008 relating to 2007 wires costs for EPCOR Transmission approved on a final basis in AUC Decision 2008-125 (discussed in more detail in section 4.2.1); and
• $4.0 million of charges and $3.8 million of refunds associated with the removal of the redistribution of interest proposed in the AESO’s 2004-2007 deferral account reconciliation application, as ordered in Decision 2009-010 on that application (discussed in more detail in section 2.3).

2.1.2 Transmission System Losses
Effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation as was the case for 2005 and prior years. As part of its 2006 General Tariff Application, the AESO applied for and received approval of Calibration Factor Rider E, which adjusts loss factors for the recovery of the actual costs of losses on a prospective basis in accordance with section 33(1) of the Transmission Regulation, AR 86/2007. The AESO has therefore not included reconciliation of losses amounts for the 2008, 2007, and 2006 deferral account years in this application.

Although transmission system losses have been subject to prospective Rider E since January 1, 2006, adjustments relating to years prior to 2006 have occurred since that date. Such pre-2006 adjustments continue to be addressed through the annual retrospective reconciliations for those years in this application.

Revenue and cost adjustments related to losses continue to be attributed to a production month, and when the production month was prior to January 2006, the adjustments have been included in this retrospective reconciliation application. Where the production month was January 2006 or later the adjustments have been or will be addressed through prospective Rider E.

2.1.3 Adjustments Not Included
Any adjustments relating to 2008 or prior years which occurred on or after December 31, 2008 are not included in this application, and will be addressed in a future deferral account reconciliation application.

For example, AUC Decision 2009-018, on AltaLink’s refiling of deferral account reconciliations pursuant to AUC Decision 2008-076, resulted in a net $1.4 million refund to the AESO accounted for in January 2009. Although the $1.4 million refund is attributable to the years 2004, 2005, and 2006, it was received by the AESO after this application’s data cut-off date of December 31, 2008, and will therefore be included in the AESO’s 2009 deferral account reconciliation application expected to be filed in the second quarter of 2010.

2.2 Production Month Presentation
In Decision 2005-034 on the AESO’s 2003 Deferral Account Reconciliation, the AUC noted:

*The primary distinction between production month and accounting month data relates to the manner in which billing adjustments are related to the AESO revenues attributed to specific customers in respect of specific*
In the 2003 Deferral Account Reconciliation proceeding, the AUC also ruled “that the AESO be required to provide deferral account reconciliation data derived on the basis of the production month data. In making its determination, the Board noted that use of production month data would be more in keeping with the spirit of the Board’s directions…in Decision 2003-099.” (Decision 2005-034, p. 10)

Consistent with this ruling, all revenues and costs included in this application for 2003 through 2008 are presented on a production month basis. For those years, adjustments to revenues or costs arising after the month to which an initial invoice pertains are attributed back to that original month, with two exceptions.

The first exception to the production month presentation of costs for 2003 through 2008 concerns the AESO’s “own costs”, which comprise other industry costs and general and administrative costs of the AESO. These costs by their nature are not attributable to specific matters of “production” and have simply been attributed to the month in which they occur. In effect, for “own costs”, an accounting month basis is considered to be equivalent to a production month basis. The AESO notes that “own costs” account for only 4% to 7% of the AESO’s annual revenue requirements, and attempts to analyze and attribute such costs to specific production months would be expected to have insignificant effects on the final allocations to customers.

The second exception to the production month presentation of revenues for 2003 through 2008 is Rider C amounts, which are treated on an accounting month basis. Rider C amounts charge or refund forecast deferral account balances relating to the quarter in which the rider applies as well as accumulated balances from prior quarters. They typically charge or refund amounts relating to two or three quarters. However, in deferral account reconciliation applications, deferral account balances for each production month are recalculated based on recorded costs and recorded “base rate” revenue. Shortfalls and surpluses are allocated to customers, and Rider C amounts are then netted against these shortfalls and surpluses to determine final amounts to be refunded to or collected from each customer. Because of this recalculation of deferral account allocations, Rider C amounts result in the same net refunds or charges whether treated on a production month or accounting month basis.

Prior year adjustments relating to 2002 and 2001 have also been treated on a production basis, by month for 2002 and by year for 2001. Although the deferral account reconciliations for those years were originally performed on an accounting basis, the adjustments relating to those years have been treated on a production basis consistent with the current reconciliation methodology. The AESO considers it impractical to revisit those years and convert the original reconciliation from an accounting basis to a production basis. Prior period adjustments total about $2.2 million over both years, accounting for only about 0.2% of the AESO’s average annual revenue requirement during that time.
### Table 2-1 Summary of Deferral Account Attribution Characteristics, 2001-2008

<table>
<thead>
<tr>
<th>Deferral Year</th>
<th>Reconciliation Basis</th>
<th>Adjustments Basis</th>
<th>Attribution Period</th>
<th>Allocation Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>production 1</td>
<td>— 5</td>
<td>month</td>
<td>2008</td>
</tr>
<tr>
<td>2007</td>
<td>production 2</td>
<td>— 6</td>
<td>month</td>
<td>2007</td>
</tr>
<tr>
<td>2006</td>
<td>production 2</td>
<td>— 6</td>
<td>month</td>
<td>2006</td>
</tr>
<tr>
<td>2005</td>
<td>production 2</td>
<td>— 6</td>
<td>month</td>
<td>2005</td>
</tr>
<tr>
<td>2004</td>
<td>production 2</td>
<td>— 6</td>
<td>month</td>
<td>2004</td>
</tr>
<tr>
<td>2003</td>
<td>production 3</td>
<td>— 6</td>
<td>month</td>
<td>2003</td>
</tr>
<tr>
<td>2002</td>
<td>accounting 4</td>
<td>production</td>
<td>month</td>
<td>2002</td>
</tr>
<tr>
<td>2001</td>
<td>accounting 4</td>
<td>production</td>
<td>year</td>
<td>2001</td>
</tr>
</tbody>
</table>

Notes:
1. 2008 first reconciliation is included in this application
2. 2007, 2006, 2005, and 2004 second reconciliations are included in this application; first reconciliations for those years were included in the AESO’s Application of June 2, 2008
3. 2003 third reconciliation is included in this application; 2003 second and first reconciliations were included in the AESO’s Applications of June 2, 2008 and June 4, 2004 (filed on December 14, 2004), respectively
4. 2002 and 2001 first reconciliations were included in the AESO’s Application of September 15, 2003; in that application all costs were reconciled on an accounting basis, except losses which were reconciled on a production basis
5. the December 31, 2008 data cut-off date used for this application results in no prior-period adjustments being included for 2008
6. 2007, 2006, 2005, 2004, and 2003 adjustments are included in the full reconciliations for those years in this application, rather than being reconciled separately

---

In summary, revenues, costs, and adjustments for the different deferral account reconciliation years have been attributed as shown in Table 2.1.

The method of allocating the deferral account balances for each of these years to customers is discussed in detail in section 10 of this application.

### 2.3 Removal of Redistribution of Interest

In its 2004-2007 deferral account reconciliation application, the AESO proposed to recognize interest on deferral account balances and to redistribute that interest both between production years and months and between rates and rate components. Amounts reflecting the proposed redistribution of interest were included in the deferral account balances and allocated to customers. Those amounts were then financially settled with customers in July 2008 in accordance with the approval for interim distribution of deferral account balances provided in AUC Order U2008-253, released on July 17, 2008.

The amounts resulting from the redistribution of interest proposed in the 2004-2007 application are summarized in Table 2-2 (originally provided as Table 2-3 in the 2004-2007 application).
In Decision 2009-010 on the 2004-2007 application, the AUC did not approve the proposed redistribution of interest, and ordered the AESO (page 14) to:

(a) recalculate its deferral account allocation to customers to remove the redistribution related to interest;
(b) refund or collect, as the case may be, the difference in amounts awarded to customers in Order U2008-253 and amounts recalculated as a result of removing its proposal for redistribution related to interest as ordered in Order (3)(a) of this Decision; and
(c) notify the Commission when the refund or collections, as the case may be, ordered in Order 3(b) of this Decision, have been completed.

Through correspondence with the AUC in February 2009, the AESO confirmed that it was acceptable to the AUC to remove the redistribution of interest as part of this 2008 deferral account reconciliation application. Accordingly, the AESO has included in this application the following reversal of the amounts summarized in Table 2-2.

The AESO notes that the redistribution of interest summarized in Table 2-2 (as proposed in the 2004-2007 application) included an increase of $0.2 million of interest expense.
attributed to 2008. As that amount did not relate to the 1999-2007 deferral account periods addressed in the 2004-2007 application, it was not included in the amounts settled with customers in the interim distribution in July 2008. That amount has accordingly been excluded from the reversed amounts summarized in Table 2-3, and accounts for the $0.2 million difference between the totals for the first two columns in Table 2-3 and the corresponding columns in Table 2-2.

For additional clarity, the $0.2 million increase in interest expense attributed to 2008 was not financially settled with customers as part of the 2004-2007 application, and therefore that 2008 amount does not need to be reversed in this application.

Variances related to the removal of interest redistribution are further discussed in the relevant sections for each deferral account year later in this application. As well, the removal of interest redistribution has been separately identified in the deferral account summaries provided in Tables 2-5, 2-6, and 2-7 later in this section.

Under the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application, interest expense adjustments were calculated based on deferral account surpluses and shortfalls which existed in 2004 and later years. The adjustments were then allocated by production year and month to the same rates and rate components to which the deferral account surpluses and shortfalls themselves were attributed. Deferral account surpluses and shortfalls existed in at least some of those years for all rate components — interconnection, losses, operating reserve, voltage control, and other system support — and the interest adjustments accordingly affected each of the rate component deferral accounts to varying degrees.

The removal of the interest redistribution therefore also affects each of those rate component deferral accounts to varying degrees. The impact of the removal of the interest redistribution on each rate component deferral account is summarized in Table 2-4 and is also identified in the relevant sections for each deferral account year later in this application.

<table>
<thead>
<tr>
<th>Year</th>
<th>DTS Customers</th>
<th>STS Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Inter-connection</td>
<td>Operating Reserve</td>
</tr>
<tr>
<td>2007</td>
<td>($0.5)</td>
<td>-</td>
</tr>
<tr>
<td>2006</td>
<td>(0.9)</td>
<td>(1.9)</td>
</tr>
<tr>
<td>2005</td>
<td>(0.6)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>2004</td>
<td>0.9</td>
<td>0.4</td>
</tr>
<tr>
<td>2003</td>
<td>(1.0)</td>
<td>0.0</td>
</tr>
<tr>
<td>2002</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>($2.0)</td>
<td>($1.6)</td>
</tr>
</tbody>
</table>
Finally, the AESO confirms that it has not included any redistribution of interest with respect to deferral account balances in this application, and at this time does not expect to do so in future deferral account reconciliation applications.

2.4 Deferral Account Balances for 2001 to 2008

Table 2-5 summarizes the deferral account balances and adjustments addressed in this application for deferral account years from 2001 to 2008.

Variances between revenues and costs, before any collections or refunds through Rider C or prior deferral account reconciliations, were:
- a shortfall of $138.2 million or 16% of costs for 2008,
- a shortfall of $57.6 million or 8% of costs for 2007,
- a shortfall of $1.7 million or 0.2% of costs for 2006,
- a shortfall of $18.2 million or 2% of costs for 2005,
- a surplus of $66.9 million or 10% of costs for 2004, and
- a surplus of $119.9 million or 16% of costs for 2003.

From 2003 through 2006, the AESO observes a trend of general reduction in the deferral account balances (before Rider C), attributable to better alignment of costs and rate components in the 2004, 2005, and 2006 approved tariffs and to general process refinements. The 2007 and 2008 shortfalls arise in part from misalignment attributable to rates being based on costs for prior (rather than current) years due to the time required for AESO tariff approvals. The 2007 and 2008 shortfalls also result from an increase in operating reserves costs due to more occurrences of high pool price periods and a trend of smaller discounts relative to pool price, and in some cases premiums, for operating reserves.

The 2008, 2007, 2006, 2005, 2004, and 2003 deferral account variances were forecast on a quarterly basis and charged or refunded through Rider C during the relevant year or in the first quarter of the following year. As well, all years except 2008 have been subject to a first deferral account reconciliation, and in the case of 2003 both first and second reconciliations, previously filed with and reviewed by the AUC. The initial variances between revenues and costs summarized above have been in large part addressed through Rider C and prior deferral account reconciliations, such that the net deferral account balances remaining which have not been included in prior reconciliations are:
- a shortfall of $4.6 million or 0.5% of costs for 2008,
- a shortfall of $1.4 million or 0.2% of costs for 2007,
- a surplus of $2.0 million or 0.3% of costs for 2006,
- a surplus of $1.4 million or 0.2% of costs for 2005,
- a surplus of $0.1 million or 0.02% of costs for 2004, and
- a shortfall of $1.6 million or 0.2% of costs for 2003.
### Table 2-5  Summary of 2008 Deferral Account Reconciliation Application, $ 000 000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interconnection</td>
<td>$494.3</td>
<td>$478.7</td>
<td>$467.0</td>
<td>$431.5</td>
<td>$381.0</td>
<td>$393.5</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$31.1</td>
</tr>
<tr>
<td>Losses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>183.5</td>
<td>145.9</td>
<td>173.5</td>
<td>217.3</td>
<td>236.3</td>
<td>237.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Voltage Control</td>
<td>52.1</td>
<td>52.8</td>
<td>52.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other System Support</td>
<td>8.3</td>
<td>8.0</td>
<td>7.9</td>
<td>2.4</td>
<td>2.2</td>
<td>2.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$738.1</td>
<td>$685.5</td>
<td>$700.6</td>
<td>$831.9</td>
<td>$757.9</td>
<td>$850.2</td>
<td>$0.1</td>
<td>$0.0</td>
<td>$4,564.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs Paid</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wires</td>
<td>($501.1)</td>
<td>($457.2)</td>
<td>($434.3)</td>
<td>($428.7)</td>
<td>($390.5)</td>
<td>($358.1)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>(312.4)</td>
<td>(236.7)</td>
<td>(233.0)</td>
<td>(189.7)</td>
<td>(123.7)</td>
<td>(177.4)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Losses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(196.1)</td>
<td>(145.6)</td>
<td>(156.2)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td></td>
</tr>
<tr>
<td>Other Industry</td>
<td>(11.5)</td>
<td>(4.8)</td>
<td>(3.6)</td>
<td>(5.3)</td>
<td>(5.0)</td>
<td>(9.3)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G&amp;A Excluding Removal of Interest</td>
<td>(51.3)</td>
<td>(44.7)</td>
<td>(33.4)</td>
<td>(31.6)</td>
<td>(26.4)</td>
<td>(27.7)</td>
<td>0.0</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Removal of Interest Redistribution</td>
<td>0.5</td>
<td>2.0</td>
<td>1.3</td>
<td>0.1</td>
<td>(1.7)</td>
<td>(2.3)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal General &amp; Administrative</strong></td>
<td>(51.3)</td>
<td>(44.3)</td>
<td>(31.4)</td>
<td>(30.3)</td>
<td>(26.3)</td>
<td>(29.4)</td>
<td>(2.3)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Costs Paid</strong></td>
<td>($876.3)</td>
<td>($743.0)</td>
<td>($702.3)</td>
<td>($650.1)</td>
<td>($691.0)</td>
<td>($730.3)</td>
<td>($2.3)</td>
<td>($0.0)</td>
<td>($4,595.4)</td>
</tr>
</tbody>
</table>

### Deferral Account

| Surplus (Shortfall)           | ($138.2) | ($57.6)  | ($1.7)  | ($18.2)  | $66.9   | $119.9  | ($2.2) | ($0.0) | ($31.1)  |
| Rider C Collection (Refund)   | 133.5    | 58.1     | 15.1    | 18.7     | (72.1)  | (158.0) | -     | -     | (4.7)    |
| Prior DAR Collection (Refund) | -        | (2.0)    | (11.3)  | 0.9      | 5.3     | 36.4    | -     | -     | 29.4     |
| **Net Surplus (Shortfall)**   | ($4.6)   | ($1.4)   | $2.0    | $1.4     | $0.1    | ($1.6)  | ($2.2) | ($0.0) | ($6.4)   |

**Notes:**
Numbers may not add due to rounding.

1 Adjustments relating to the 2002 and 2001 deferral account years include all changes related to those years that have occurred since the March 31, 2008 data cut-off date for the 2004-2007 deferral account reconciliation.

2 DAR means Deferral Account Reconciliation.
Adjustments to revenues and costs also occur several (and sometimes many) months after the end of the calendar year to which the revenues and costs relate. Such adjustments arise for a variety of reasons, including:

- metered data adjustments, corrections, or restatements,
- finalization of loss volumes,
- AUC decisions on transmission facility owner (“TFO”) costs and other matters,
- PFAM (Post Final Adjustment Mechanism) data restatements,
- vendor invoice corrections,
- revisions to contract terms, and
- revisions to rate calculations or application.

Where adjustments relate to a calendar year prior to the year being reconciled in a deferral account reconciliation application, those adjustments are considered “prior period adjustments”. The prior period adjustments are attributed to the appropriate production months (or year, for 2001), as discussed in section 2.2 of this application. Prior period adjustments which related to 2007, 2006, 2005, 2004, and 2003 are included in the full reconciliations for those years discussed above.

It is impractical to provide full reconciliations for 2002 and 2001, as discussed in section 2.2 above. Therefore, prior period adjustments which relate to those two years are summarized as the incremental adjustments to the deferral accounts that have occurred since the data cut-off date for the 2004-2007 deferral account reconciliation. This application includes the following prior period adjustment amounts for 2002 and 2001 as summarized in Table 2-5:

- for 2002, a shortfall of $2.2 million, and
- for 2001, a surplus of $0.05 million.

The net impact of the 2003-2008 deferral account reconciliation and re-reconciliations, and of the 2001-2002 adjustments, provided in this application is a net shortfall of $6.4 million, as provided in Table 2-5.

For comparison with Table 2-5, Table 2-6 provides a summary of comparable amounts as included in the AESO’s 2004-2007 deferral account reconciliation application. In addition, Table 2-7 summarizes the differences between Tables 2-5 and 2-6, which reflects the net impact on deferral account balances of all revenue and cost transactions that have not been included in a prior deferral account reconciliation application.

The variances between revenues and costs and the prior period adjustments included in Table 2-5 affect the deferral account balances to be collected from or refunded to customers. Adjustments to revenues received from individual customers also affect the allocation of the deferral account balances to those customers, since deferral account balances are allocated based on a customer’s revenue (or, for losses, on production times pool price) when a deferral account is subject to full reconciliation as for 2008, 2007, 2006, 2005, 2004, and 2003. (Non-material 2002 and 2001 adjustments are allocated using previously-approved allocators which would not be affected by adjustments to revenues.)
# Table 2-6  Summary of 2004-2007 Deferral Account Reconciliation Application, $ 000 000

<table>
<thead>
<tr>
<th></th>
<th>Deferral Account Reconciliations</th>
<th>DA Adjustments</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interconnection</td>
<td>$478.8</td>
<td>$467.0</td>
<td>$431.4</td>
</tr>
<tr>
<td>Losses</td>
<td>-</td>
<td>-</td>
<td>180.7</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>145.9</td>
<td>173.4</td>
<td>217.2</td>
</tr>
<tr>
<td>Voltage Control</td>
<td>52.8</td>
<td>52.3</td>
<td>-</td>
</tr>
<tr>
<td>Other System Support</td>
<td>8.0</td>
<td>7.9</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$685.6</td>
<td>$700.6</td>
<td>$831.8</td>
</tr>
<tr>
<td><strong>Costs Paid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wires</td>
<td>($459.4)</td>
<td>($434.3)</td>
<td>($428.7)</td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>(232.7)</td>
<td>(233.0)</td>
<td>(189.7)</td>
</tr>
<tr>
<td>Losses</td>
<td>-</td>
<td>-</td>
<td>(196.1)</td>
</tr>
<tr>
<td>Other Industry</td>
<td>(4.8)</td>
<td>(3.6)</td>
<td>(5.3)</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G&amp;A Excluding Interest Redistribution</td>
<td>(44.3)</td>
<td>(31.4)</td>
<td>(30.3)</td>
</tr>
<tr>
<td>Interest Redistribution</td>
<td>(0.5)</td>
<td>(2.0)</td>
<td>(1.3)</td>
</tr>
<tr>
<td><strong>Subtotal General &amp; Administrative</strong></td>
<td>(44.8)</td>
<td>(33.4)</td>
<td>(31.6)</td>
</tr>
<tr>
<td><strong>Total Costs Paid</strong></td>
<td>($741.7)</td>
<td>($704.3)</td>
<td>($851.4)</td>
</tr>
<tr>
<td><strong>Deferral Account</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus (Shortfall)</td>
<td>(56.1)</td>
<td>(3.7)</td>
<td>(19.6)</td>
</tr>
<tr>
<td>Rider C Collection (Refund)</td>
<td>58.1</td>
<td>15.1</td>
<td>18.7</td>
</tr>
<tr>
<td>Prior DAR ¹ Collection (Refund)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Surplus (Shortfall)</strong></td>
<td>$2.0</td>
<td>$11.3</td>
<td>($0.9)</td>
</tr>
</tbody>
</table>

**Note:** Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.
Table 2-7  Summary of 2008 Net Deferral Account Transactions Since 2004-2007 Deferral Account Reconciliation, $ 000 000

<table>
<thead>
<tr>
<th></th>
<th>Deferral Account Reconciliations</th>
<th>DA Adjustments</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interconnection</td>
<td>$494.3</td>
<td>($0.2)</td>
<td>$0.0</td>
</tr>
<tr>
<td>Losses</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>183.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Voltage Control</td>
<td>52.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other System Support</td>
<td>8.3</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$738.1</td>
<td>($0.1)</td>
<td>$0.0</td>
</tr>
<tr>
<td><strong>Costs Paid</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wires</td>
<td>($501.1)</td>
<td>$2.2</td>
<td>-</td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>(312.4)</td>
<td>(4.0)</td>
<td>-</td>
</tr>
<tr>
<td>Losses</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Industry</td>
<td>(11.5)</td>
<td>(0.0)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G&amp;A Excluding Removal of Interest</td>
<td>(51.3)</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Removal of Interest Redistribution</td>
<td>-</td>
<td>0.5</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Subtotal General &amp; Administrative</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($51.3)</td>
<td>0.5</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total Costs Paid</strong></td>
<td>($876.3)</td>
<td>($1.3)</td>
<td>$2.0</td>
</tr>
<tr>
<td><strong>Deferral Account</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus (Shortfall)</td>
<td>(138.2)</td>
<td>(1.4)</td>
<td>2.0</td>
</tr>
<tr>
<td>Rider C Collection (Refund)</td>
<td>133.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prior DAR ¹ Collection (Refund)</td>
<td>-</td>
<td>(0.0)</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Net Surplus (Shortfall)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>($4.6)</td>
<td>($1.4)</td>
<td>$2.0</td>
<td>$1.4</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.

2.5 Cost Prudency Considerations

As discussed by the AESO in previous deferral account reconciliation proceedings, the AESO considers this application and related proceeding to be the proper venue in which to consider the prudence of AESO costs incurred with respect to 2008.

As discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation as is the case for 2005 and prior years. The reasonable recovery of the cost of transmission system losses is instead provided for in accordance with ISO Rule 9.2 and the requirements of the Transmission Regulation. Forecast and actual losses costs and revenues for 2008 are reported in the Rider E Calibration Factor Calculations provided in advance of each calendar quarter on the AESO website, and are not further discussed in this deferral account reconciliation application. The Rider E Calibration Factor Calculations are available on the AESO’s website at www.aeso.ca by following the path Transmission ▶ Loss Factors ▶ Calibration Factors.

Where significant adjustments to 2007 or prior year costs are included in this deferral account reconciliation, this application and related proceeding are also the proper venue for consideration of the prudence of those adjustments to such costs. The AESO notes, however, that the prudence of AESO costs incurred with respect to 2007 and prior years which were already included in the AESO’s 2004-2007 deferral account reconciliation application was considered in the 2004-2007 proceeding, and should not be reviewed again.

The presentation of a second reconciliation of the AESO’s 2004-2007 deferral accounts, and of a third reconciliation of the AESO’s 2003 deferral accounts, in this application does not imply that all costs relating to those years are again subject to review. Rather, the second and third reconciliations are provided to appropriately allocate all costs related to those years to customers, not to re-examine the prudence of costs which have already been approved.

Finally, where significant adjustments to 2002 and 2001 costs are included, the proceeding related to this application is the proper venue for consideration of the prudence of those adjustments to such costs.

The AESO has accordingly provided schedules and explanations of significant variances by line item for 2008 and of significant adjustments to costs for 2007 and prior years where such adjustments have not previously been included in a deferral account reconciliation application, in section 3, 4, 5, 6, 7, 8, and 9 of this application.
2.6 Reconciliation to Financial Statements

The AESO’s annual reports include audited financial statements which present revenues and costs on a financial or accounting year basis (including accruals as noted in those statements) rather than on a production month basis as discussed in section 2.2 of this application. For example, the audited financial statements include or accrue revenues and costs which were known as of the end of the year being reported, whereas the deferral account reconciliations in this application include production month revenues and costs which occur several (and sometimes many) months after year-end.

Therefore, revenues, costs, and deferral account balances included in this application have been reconciled to the revenues and costs reported in the AESO’s audited income statements and balance sheets for 2008, 2007, 2006, 2005, 2004, and 2003. The reconciliations are provided in Appendices B and C of this application.

The AESO’s annual report for 2008 is not yet available, although financial statements for 2008 have been audited and are provided in Appendix D-1. The AESO’s annual reports for 2007, 2006, 2005, 2004, and 2003 (which include audited financial statements) are provided in the balance of Appendix D.

2.7 Allocation to and Settlement With Customers

This application provides detail on the allocation of deferral account balances to individual AESO customers, which requires the disclosure of transmission revenue received from individual customers. The application also includes the applied-for refunds to and collections from those individual customers.

Regulated distribution utilities will normally include their deferral account refunds and collections in their own tariff applications to the AUC and thereby make the deferral account amounts public. Those utilities — namely, ATCO Electric, ENMAX Power, EPCOR Distribution & Transmission, FortisAlberta, the City of Lethbridge, and the City of Red Deer — are therefore identified by name in the allocation tables in appendices of this application.

For AESO direct-connect customers, individual customer confidentiality is protected by assigning a number to each AESO direct-connected customer as has been done in prior deferral account reconciliation applications. The numbers assigned to a specific customer are not necessarily the same for each deferral account year in this application, and are not necessarily the same as those used in prior applications.

After filing this application, the AESO will distribute to each customer their applicable numbers for the deferral account reconciliation years included, as discussed in more detail in section 10.3 of this application.
2.8 Future Deferral Account Reconciliations

112 The AESO is not seeking in this current application any decision from the AUC in respect of future deferral account reconciliation applications. However, the following comments are provided to assist the AUC and stakeholders regarding the AESO’s expectations for future applications.

113 The AESO’s 2004-2007 deferral account reconciliation application was prepared using a software program developed by the AESO from 2006 to 2007 specifically to handle the large quantity of data involved in multi-year deferral account reconciliations. That program was updated over approximately a six-month period to incorporate 2008 as a deferral account year, and has been used to prepare this 2008 application. The AESO anticipates continuing to use the program for future deferral account reconciliation applications.

114 In previous deferral account reconciliation applications, the AESO assessed the effect of changes to transmission billing volumes for load customers between initial, interim, and final settlements. The AESO found the volume changes to be minimal, and expects that the resulting changes in deferral account allocation would be expected to be below the ±$50,000 materiality threshold for individual customer revenues discussed in consultation with stakeholders during 2005.

115 Based on the quality of initial settlement data, the AESO has prepared this 2008 deferral account reconciliation application after initial settlement of December volumes, using a December 31, 2008 data cut-off date. The AESO expects to also prepare future applications based on initial settlement volumes and a December 31 data cut-off date, and considers that such an approach will have minimal impact on the accuracy of deferral account allocations to customers.

116 In previous deferral account reconciliations, the revenue collected with respect to a deferral account year was the sum of revenue collected through base rates during the year plus revenue collected through Rider C during the year and in the first quarter of the following year. As discussed in more detail in section 3.3 of this application, for the 2008 deferral account year the AESO excluded all 2008 year-end balances from the calculation of the 2009 first quarter Rider C amounts. Doing so allowed the AESO to begin preparation of this 2008 deferral account reconciliation application in February 2009, instead of waiting until May 2009 after settlement of first quarter revenue. The AESO conducted limited informal consultation on the change at the end of 2008 and more formal consultation in March 2009, and stakeholders generally supported the change.

117 For future deferral account reconciliation applications, the AESO also expects to exclude year-end balances from the calculation of first quarter Rider C amounts and to begin preparation of the applications in February. 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.
The AESO also consulted with stakeholders in March 2009 on other matters related to deferral account reconciliations, including:

- whether the calculation of quarterly Rider C amounts should include or exclude transactions which affect a prior production year (with the exception of the first quarter Rider C which would exclude prior-year transactions as discussed above),
- whether the AESO should implement an alternative to the current approach of repeating full reconciliations for multiple deferral account years in each deferral account reconciliation application, and
- whether Riders B and C should be reviewed and potentially changed to improve their effectiveness.

Stakeholders provided initial comments on these matters, and the AESO expects to consult further on these matters with stakeholders in the coming months. Such consultation will be conducted in conjunction with preparations for the AESO's 2010 GTA, and proposals for changes, if any, may be included in the tariff application, expected to be filed in the third quarter of 2009. As mentioned above, the AESO is not seeking any direction from the AUC regarding future consultation, tariff applications, or deferral account reconciliation applications at this time.
3 2008 FINANCIAL RESULTS AND DEFERRAL ACCOUNT BALANCE

120 The AESO’s 2008 costs and revenues which are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, and the AESO’s own administration (which includes other industry costs and general and administrative costs).

121 As discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective reconciliation. Since that time, Calibration Factor Rider E has adjusted loss factors for the recovery of the actual costs of losses on a prospective basis in accordance with section 33(1) of the Transmission Regulation. Therefore, the financial results and deferral account balance for 2008 discussed in this section do not include costs and revenues related to losses.

122 In determining the financial results and deferral account balance for 2008, all revenue and cost transactions (except those related to losses) that occurred from January 1, 2008, to December 31, 2008 and that relate to 2008 have been included in the reconciliations. These transactions establish the 2008 production month data for deferral account reconciliation purposes in this application. The net result of these transactions is $876.3 million in costs and $871.6 million in customer revenues (including Rider C collections and refunds) being attributed to 2008. The difference between costs and revenues is a shortfall of $4.6 million, which is the net deferral account balance for 2008.

123 The AESO notes that revenue and cost transactions that occurred from January 1, 2008, to December 31, 2008 may also relate, in whole or in part, to years prior to 2008. In such instances, the transaction (or part of the transaction) which relates to a prior year has been assigned to the prior year, in accordance with the production month presentation described in section 2.2 of this application. Where the transaction (or part of the transaction) relates to losses prior to 2006, it also has been assigned to the prior year. Detail on the assignment between 2008 and prior years for transactions which occurred in 2008 is provided in Appendix E-1 of this application.

3.1 2008 Cost Variances

124 The AESO’s 2008 revenue requirement subject to retrospective reconciliation includes costs which have been approved either by the AUC (for TFOs) or by the AESO Board (for ancillary services and the AESO’s own administration).

125 The TFO costs included in the AESO’s 2008 revenue requirement were based on the tariff most recently approved by the AUC (on either a final or interim basis) for each TFO at the time the AESO 2008 budget was prepared in late 2007. Some of the TFO tariffs reflect AUC approvals for 2007 and earlier years, as those were the most recent years for which final or interim TFO tariff approvals had been issued at that time.

126 The ancillary services and administration costs included in the AESO’s 2008 revenue requirement are those approved by the AESO Board (acting as the “ISO members” described in section 8 of the EUA) in accordance with the Transmission Regulation.
Section 3 of the *Transmission Regulation* addresses consultation and approval of those costs and requires that the AESO consult with market participants with respect to proposed costs to be approved by the AESO Board. Subsections 46(1), 48(1), and 48(2) of the *Transmission Regulation* also provide that these costs, once approved by the AESO Board, must be considered as “prudent” by the AUC unless an interested person satisfies the AUC otherwise.

127 AESO management, following consultation with stakeholders and incorporating appropriate amendments arising from the consultation, submitted an AESO Board Decision Document to the AESO Board on November 27, 2007. The Board Decision Document contained detailed proposals for the AESO’s 2008 business plan and budget. The AESO Board Decision issued on March 28, 2008 approved the ancillary services, losses, and administration costs discussed in the Board Decision Document. Both the AESO Board Decision and the supporting Board Decision Document contain additional information on the AESO’s 2008 revenue requirement. Both documents are available on the AESO website at www.aeso.ca by following the path About AESO ► Our Business ► Business Plan and Budget ► 2008 & 2009 Business Priorities and Budget.

128 Table 3-1 presents the AESO’s 2008 revenue requirement (excluding losses) as approved by the AUC (for TFOs) and by the AESO Board (for ancillary services and the AESO’s own administration) as discussed above. Table 3-1 also includes recorded costs as incurred for 2008, and variances between approved and recorded costs in both dollar amounts and as a percentage of approved costs.

129 Total 2008 recorded costs are $66.0 million (or 8%) higher than the total 2008 approved revenue requirement. This variance consists of 2008 recorded costs being:
- $17.6 million (or 4%) higher than the 2008 approved revenue requirement for wires,
- $46.5 million (or 17%) higher for ancillary services,
- $2.4 million (or 26%) higher for other industry costs, and
- $0.4 million (or 0.7%) lower for general and administrative costs.

130 Variances arise due to a number of factors, including finalization of TFO costs through AUC decisions, variances from forecast of volumes and pool price, delays and changes in AESO schedules and priorities, and generally expected differences between recorded and forecast costs. The AESO considers a line item variance to be significant when it exceeds ±$5.0 million, which represents approximately 10% of the $51.7 million general and administrative costs component of the AESO’s revenue requirement. A line item variance smaller than ±$5.0 million is also considered significant when it is both at least ±$0.5 million and at least ±10% of the approved line item amount. The ±$0.5 million threshold represents approximately 1% of the $51.7 million general and administrative costs component of the AESO’s revenue requirement, while the AESO considers ±10% to be a reasonable threshold below which specific variance explanations are not required.

131 Variances exceeding these thresholds are shaded in Table 3-1, with explanations provided by line number in the following discussion. Where variances were either less than ±$0.5 million or less than ±10% (except where such variance is ±$5.0 million or greater)
Table 3-1  2008 Revenue Requirement and Recorded Costs (Excluding Losses), $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>WIREs TFO Wires-Related Costs</th>
<th>Approved Forecast Costs (a)</th>
<th>Recorded Costs (b)</th>
<th>Variance Over (Under) (c)=(b)-(a)</th>
<th>% (d)=(c)÷(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AltaLink</td>
<td>227.5</td>
<td>228.8</td>
<td>1.3</td>
<td>0.6%</td>
</tr>
<tr>
<td>2</td>
<td>ATCO Electric</td>
<td>176.6</td>
<td>178.9</td>
<td>2.3</td>
<td>1.3%</td>
</tr>
<tr>
<td>3</td>
<td>Isolated Generation</td>
<td>(10.0)</td>
<td>(6.7)</td>
<td>3.3</td>
<td>(33.2)%</td>
</tr>
<tr>
<td>4</td>
<td>Subtotal ATCO Costs</td>
<td>166.6</td>
<td>172.2</td>
<td>5.6</td>
<td>3.4%</td>
</tr>
<tr>
<td>5</td>
<td>ENMAX Power Corporation</td>
<td>31.9</td>
<td>31.9</td>
<td>0.0</td>
<td>0.1%</td>
</tr>
<tr>
<td>6</td>
<td>EPCOR Distribution &amp; Transmission</td>
<td>36.8</td>
<td>44.3</td>
<td>7.5</td>
<td>20.3%</td>
</tr>
<tr>
<td>7</td>
<td>City of Lethbridge</td>
<td>4.5</td>
<td>4.5</td>
<td>0.0</td>
<td>1.1%</td>
</tr>
<tr>
<td>8</td>
<td>TransAlta Utilities Corporation</td>
<td>4.2</td>
<td>4.2</td>
<td>0.0</td>
<td>0.4%</td>
</tr>
<tr>
<td>9</td>
<td>City of Red Deer</td>
<td>1.7</td>
<td>1.7</td>
<td>(0.0)</td>
<td>(1.4%)</td>
</tr>
<tr>
<td>10</td>
<td>FortisAlberta (Farm Transmission)</td>
<td>1.5</td>
<td>1.7</td>
<td>0.2</td>
<td>13.3%</td>
</tr>
<tr>
<td>11</td>
<td>KEG Unit Transformers Conversion</td>
<td>-</td>
<td>3.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Subtotal TFO Wires-Related Costs</td>
<td>474.7</td>
<td>492.6</td>
<td>17.9</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Non-Wires Costs</th>
<th>Approved Forecast Costs (a)</th>
<th>Recorded Costs (b)</th>
<th>Variance Over (Under) (c)=(b)-(a)</th>
<th>% (d)=(c)÷(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Invitation to Bid on Credits (IBOC)</td>
<td>1.7</td>
<td>1.5</td>
<td>(0.2)</td>
<td>(10.0%)</td>
</tr>
<tr>
<td>14</td>
<td>Location Based Credit Standing Offer (LBC SO)</td>
<td>7.1</td>
<td>7.0</td>
<td>(0.2)</td>
<td>(2.2%)</td>
</tr>
<tr>
<td>15</td>
<td>Subtotal IBOC/LBC SO Costs</td>
<td>8.8</td>
<td>8.5</td>
<td>(0.3)</td>
<td>(3.7%)</td>
</tr>
<tr>
<td>16</td>
<td>TOTAL WIRES COSTS</td>
<td>483.5</td>
<td>501.1</td>
<td>17.6</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line No.</th>
<th>ANCILLARY SERVICES</th>
<th>Approved Forecast Costs (a)</th>
<th>Recorded Costs (b)</th>
<th>Variance Over (Under) (c)=(b)-(a)</th>
<th>% (d)=(c)÷(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Operating Reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Active</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Regulating</td>
<td>55.7</td>
<td>70.3</td>
<td>14.7</td>
<td>26.4%</td>
</tr>
<tr>
<td>22</td>
<td>Spinning</td>
<td>74.6</td>
<td>94.7</td>
<td>20.1</td>
<td>26.9%</td>
</tr>
<tr>
<td>23</td>
<td>Supplemental</td>
<td>66.5</td>
<td>79.1</td>
<td>12.5</td>
<td>18.9%</td>
</tr>
<tr>
<td>20</td>
<td>Subtotal Active Reserves</td>
<td>196.8</td>
<td>244.1</td>
<td>47.3</td>
<td>24.0%</td>
</tr>
<tr>
<td>21</td>
<td>Standby</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Regulating</td>
<td>6.3</td>
<td>8.7</td>
<td>2.4</td>
<td>38.7%</td>
</tr>
<tr>
<td>23</td>
<td>Spinning</td>
<td>7.7</td>
<td>12.0</td>
<td>4.3</td>
<td>56.4%</td>
</tr>
<tr>
<td>24</td>
<td>Supplemental</td>
<td>4.3</td>
<td>4.8</td>
<td>0.5</td>
<td>12.1%</td>
</tr>
<tr>
<td>24</td>
<td>Subtotal Standby Reserves</td>
<td>18.3</td>
<td>25.6</td>
<td>7.3</td>
<td>39.8%</td>
</tr>
<tr>
<td>25</td>
<td>Trading Fees &amp; Other Related Charges</td>
<td>-</td>
<td>(7.4)</td>
<td>(7.4)</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>Subtotal Operating Reserves</td>
<td>215.1</td>
<td>262.3</td>
<td>47.2</td>
<td>22.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Other Ancillary Services</th>
<th>Approved Forecast Costs (a)</th>
<th>Recorded Costs (b)</th>
<th>Variance Over (Under) (c)=(b)-(a)</th>
<th>% (d)=(c)÷(a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>Brazeau Fast Ramp (Previously GRAS)</td>
<td>0.7</td>
<td>0.1</td>
<td>(0.6)</td>
<td>(83.3%)</td>
</tr>
<tr>
<td>28</td>
<td>Black Start</td>
<td>2.0</td>
<td>1.8</td>
<td>(0.2)</td>
<td>(10.4%)</td>
</tr>
<tr>
<td>29</td>
<td>Transmission Must Run (TMR)</td>
<td>40.2</td>
<td>42.1</td>
<td>1.8</td>
<td>4.5%</td>
</tr>
<tr>
<td>30</td>
<td>Under Frequency Mitigation</td>
<td>5.0</td>
<td>4.0</td>
<td>(1.0)</td>
<td>(20.0%)</td>
</tr>
<tr>
<td>31</td>
<td>Subtotal Other Ancillary Services</td>
<td>48.0</td>
<td>48.0</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
### Table 3-1  2008 Revenue Requirement and Recorded Costs (Excluding Losses), $ 000 000 (cont'd)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(b)-(a)</td>
<td>(d)=(c)=(a)</td>
</tr>
<tr>
<td>Poplar Hill/ILRAS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Poplar Hill</td>
<td>1.9</td>
<td>2.0</td>
<td>0.1</td>
</tr>
<tr>
<td>33</td>
<td>Interruptible Load Remedial Action Scheme (ILRAS)</td>
<td>0.8</td>
<td>0.0</td>
<td>(0.8)</td>
</tr>
<tr>
<td>34</td>
<td>Generator Remedial Action Scheme (RAS)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>Subtotal Poplar Hill/ILRAS</td>
<td>2.8</td>
<td>2.0</td>
<td>(0.8)</td>
</tr>
<tr>
<td>36</td>
<td>TOTAL ANCILLARY SERVICES</td>
<td>265.9</td>
<td>312.4</td>
<td>46.5</td>
</tr>
</tbody>
</table>

### OTHER INDUSTRY COSTS

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(b)-(a)</td>
<td>(d)=(c)=(a)</td>
</tr>
<tr>
<td>37</td>
<td>External Regulatory Costs</td>
<td>4.1</td>
<td>0.8</td>
<td>(3.3)</td>
</tr>
<tr>
<td>38</td>
<td>Western Electricity Coordinating Council (WECC)</td>
<td>2.5</td>
<td>2.1</td>
<td>(0.4)</td>
</tr>
<tr>
<td>39</td>
<td>Share of AUC Costs</td>
<td>2.5</td>
<td>8.6</td>
<td>6.1</td>
</tr>
<tr>
<td>40</td>
<td>TOTAL OTHER INDUSTRY COSTS</td>
<td>9.1</td>
<td>11.5</td>
<td>2.4</td>
</tr>
</tbody>
</table>

### GENERAL AND ADMINISTRATIVE COSTS

#### Administrative Costs

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(b)-(a)</td>
<td>(d)=(c)=(a)</td>
</tr>
<tr>
<td>41</td>
<td>Staff and Benefits</td>
<td>28.0</td>
<td>26.0</td>
<td>(2.0)</td>
</tr>
<tr>
<td>42</td>
<td>Consultants</td>
<td>5.8</td>
<td>7.7</td>
<td>2.0</td>
</tr>
<tr>
<td>43</td>
<td>Board Members Fees</td>
<td>0.5</td>
<td>0.4</td>
<td>(0.1)</td>
</tr>
<tr>
<td>44</td>
<td>Travel and Training</td>
<td>1.7</td>
<td>1.6</td>
<td>(0.0)</td>
</tr>
<tr>
<td>45</td>
<td>Legal</td>
<td>0.5</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>46</td>
<td>Audits/Reviews</td>
<td>0.6</td>
<td>0.3</td>
<td>(0.3)</td>
</tr>
<tr>
<td>47</td>
<td>Rent ^1</td>
<td>2.0</td>
<td>2.2</td>
<td>0.2</td>
</tr>
<tr>
<td>48</td>
<td>Insurance</td>
<td>0.4</td>
<td>0.4</td>
<td>(0.0)</td>
</tr>
<tr>
<td>49</td>
<td>Other Administrative Costs</td>
<td>2.4</td>
<td>4.2</td>
<td>1.8</td>
</tr>
<tr>
<td>50</td>
<td>Telecomm and IT Maintenance</td>
<td>2.3</td>
<td>2.5</td>
<td>0.3</td>
</tr>
<tr>
<td>51</td>
<td>Interconnection Fees (Offset)</td>
<td>-</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>52</td>
<td>Total Administrative Costs</td>
<td>44.2</td>
<td>46.0</td>
<td>1.8</td>
</tr>
</tbody>
</table>

#### General Costs

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(b)-(a)</td>
<td>(d)=(c)=(a)</td>
</tr>
<tr>
<td>53</td>
<td>Interest</td>
<td>1.7</td>
<td>0.9</td>
<td>(0.8)</td>
</tr>
<tr>
<td>54</td>
<td>Amortization and Depreciation</td>
<td>5.8</td>
<td>4.4</td>
<td>(1.4)</td>
</tr>
<tr>
<td>55</td>
<td>Total General Costs</td>
<td>7.5</td>
<td>5.3</td>
<td>(2.1)</td>
</tr>
<tr>
<td>56</td>
<td>TOTAL GENERAL &amp; ADMIN COSTS</td>
<td>51.7</td>
<td>51.3</td>
<td>(0.4)</td>
</tr>
</tbody>
</table>

### TOTAL G&A AND OTHER INDUSTRY COSTS

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(b)-(a)</td>
<td>(d)=(c)=(a)</td>
</tr>
<tr>
<td>57</td>
<td>TOTAL G&amp;A AND OTHER INDUSTRY COSTS</td>
<td>60.8</td>
<td>62.8</td>
<td>2.0</td>
</tr>
</tbody>
</table>

### TOTAL REVENUE REQUIREMENT

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(b)-(a)</td>
<td>(d)=(c)=(a)</td>
</tr>
<tr>
<td>58</td>
<td>TOTAL REVENUE REQUIREMENT</td>
<td>810.2</td>
<td>876.3</td>
<td>66.0</td>
</tr>
</tbody>
</table>
Table 3-1 2008 Revenue Requirement and Recorded Costs (Excluding Losses), $ 000 000 (cont'd)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Approved Forecast Costs</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)=(b)-(a)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(d)=(c)÷(a)</td>
</tr>
<tr>
<td>59</td>
<td>General Capital</td>
<td>5.8</td>
<td>6.0</td>
<td>0.2</td>
</tr>
<tr>
<td>60</td>
<td>Calgary Place Office Renovations</td>
<td>-</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>61</td>
<td>Energy Management System (EMS) Upgrade</td>
<td>-</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>62</td>
<td>Dispatch Tool Re-Architecture</td>
<td>-</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>63</td>
<td>Total Capital</td>
<td>5.8</td>
<td>14.1</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding
Shaded numbers indicate significant variances which are discussed in the text
¹ Amortization of Rent Free Period not included in 2008 Recorded Costs on Line 47

explanations are not provided, as such variances are small enough that specific variance explanations are not required.

3.1.1 Wires Costs

The AESO’s 2008 wires costs forecast was based primarily on TFO costs approved at the time AESO management prepared the AESO Board Decision Document in late 2007. The specific AUC decisions approving the wires cost for each TFO were as follows.

(a) **AltaLink** — The 2008 forecast TFO wires cost was from AUC Decision 2007-050 released on June 19, 2007, which approved AltaLink’s 2007-2008 transmission facility owner tariff on a final basis.

(b) **ATCO Electric** — The 2008 forecast TFO wires cost was from AUC Decision 2006-132 released on December 19, 2006, which approved ATCO Electric’s interim 2007 transmission facility owner tariff. The 2008 forecast isolated generation credit was based on the 2008 forecast fuel costs for isolated generation approved for ATCO Electric in AUC Decision 2007-071 released on September 22, 2007, on ATCO Electric’s 2007-2008 general tariff application.

(c) **ENMAX Power Corporation** — The 2008 forecast TFO wires cost was from AUC Decision 2006-130 released on December 21, 2006, which approved the continuance on an interim basis of ENMAX’s refiling of its 2006 transmission facility owner tariff.

(d) **EPCOR Distribution & Transmission** — The 2008 forecast TFO wires cost was from AUC Order 2006-315 released on December 15, 2006, which approved EPCOR’s 2007 interim transmission facility owner tariff.

(e) **City of Lethbridge** — The 2008 forecast TFO wires cost was from AUC Order 2006-47 released on February 24, 2006, which approved Lethbridge’s 2006-2008 transmission facility owner tariff on a final basis.
138 (f) **TransAlta Utilities Corporation** — The 2008 forecast TFO wires cost was from AUC Decision 2007-050 released on June 19, 2007, which approved TransAlta’s 2007-2008 transmission facility owner tariff on a final basis.

139 (g) **City of Red Deer** — The 2008 forecast TFO wires cost was from AUC Order 2006-48 released on February 24, 2006, which approved Red Deer’s 2006-2008 transmission facility owner tariff on a final basis.

140 (h) **FortisAlberta (Farm Transmission)** — The 2008 forecast cost was from AUC Decision 2006-099 released on October 16, 2006, which approved FortisAlberta’s 2006-2007 distribution tariff regarding Phase II and other matters on a final basis.

141 The recorded 2008 wires costs were as billed by the TFOs to the AESO based on the final or interim 2008 tariffs approved for the TFOs. The AESO notes that final approval has not yet been issued for the 2008 TFO tariff of ENMAX Power Corporation. If ENMAX’s final TFO tariff differs from the interim tariff included in the 2008 wires costs in this deferral account reconciliation, the difference will be included in the next deferral account reconciliation application filed after the final tariff is approved.

142 The recorded wires costs for 2008 totalled $501.1 million, which is $17.6 million (or 4%) more that the 2008 approved forecast of $483.5 million. The variance is primarily due to an inappropriately high forecast for the ATCO Electric isolated generation credit, finalization of EPCOR’s 2008 TFO wires costs, and payment of costs for the KEG unit transformers conversion.

**Line 3 ATCO Electric Isolated Generation**

143 In accordance with the *Isolated Generating Units and Customer Choice Regulation*, AR 165/2003, the isolated generation credit reflects payments from retailers to the AESO based on pool price for the energy used in communities served by isolated generation. The 2008 recorded isolated generation credit was $6.7 million, which is $3.3 million (or 33%) less than the 2008 approved forecast credit of $10.0 million.

144 On review, the AESO found the 2008 forecast isolated generation credit was based on the 2008 forecast fuel costs for isolated generation approved for ATCO Electric in AUC Decision 2007-071. However, the forecast fuel costs are not necessarily reflective of pool price for the energy used in communities served by isolated generation. The 2008 forecast credit of $10.0 million was also significantly higher than the 2007 recorded credit of $5.9 million and the 2006 recorded credit of $7.0 million noted in the AESO’s 2004-2007 deferral account reconciliation application. The AESO accordingly concludes that the 2008 forecast isolated generation credit was developed on an inappropriate basis and was thus inappropriately high. The 2008 recorded credit of $6.7 million is based on actual pool price during 2008 and was determined in accordance with the *Isolated Generating Units and Customer Choice Regulation*.

**Line 6 EPCOR Distribution & Transmission**

145 The 2008 recorded cost for EPCOR wires was $44.3 million, which is $7.5 million (or 20%) more than the 2008 approved forecast of $36.8 million. The forecast cost was from AUC
Order 2006-315 released on December 15, 2006, which approved EPCOR’s 2007 interim transmission facility owner tariff. The recorded cost was from AUC Decision 2008-125 released on December 3, 2008, which approved EPCOR’s 2007-2009 transmission facility owner tariff on a final basis.

Line 11 KEG Unit Transformers Conversion
The 2008 recorded cost for the KEG unit transformers conversion was $3.3 million. No corresponding amount was included in the approved forecast. The variance arose from directions in AUC Decision 2008-101 regarding AESO recovery of costs for Keeihills-Ellerslie-Genesee (“KEG”) conversion of unit transformers, released on October 21, 2008, as discussed in section 12 of this application.

3.1.2 Ancillary Services
The recorded ancillary service costs for 2008 totalled $312.4 million, which is $46.5 million (or 17%) more than the 2008 approved forecast of $265.9 million. The primary component of this variance is an increase in active operating reserves costs of $47.3 million (or 24%) due to more occurrences of high pool price periods and a trend of smaller discounts relative to pool price, and in some cases premiums, for operating reserves. The variance also includes an increase in standby operating reserves costs, a credit arising from trading fees and other related charges, and reductions in the costs of Brazeau fast ramp, under frequency mitigation, and interruptible load remedial action scheme (“ILRAS”) services.

Explanations of the variances of the 2008 recorded costs from the 2008 approved forecast are provided in the sections that follow.

Lines 17 to 26 Operating Reserves
Operating reserves are unloaded megawatt capacity that is available to respond to temporary shortfalls in supply caused by the loss of a generating unit, intertie capabilities, or moment-to-moment fluctuations in the load. Operating reserves are comprised of regulating reserve and contingency reserves (including spinning and supplemental reserves).

Regulating reserve refers to the amount of synchronized generation that responds to automatic generation control (“AGC”) signals that track moment-to-moment fluctuations in the supply and demand. Regulating reserves track variations in the load that cannot be met with energy dispatches. Because variations in supply and demand can be either positive or negative, regulating reserves have a range with an upper and lower limit. The volumes of regulating reserve are specified as a range in megawatts over which a level of control is required by the AGC system.

Spinning reserve is unloaded generation that is synchronized to the system, automatically responsive to deviations in frequency, and ready to serve additional demand following a System Controller directive within 10 minutes.

Supplemental reserve is unloaded generation, off-line generation, or system load that is ready to serve additional demand (generator) or to reduce demand (load) within 10 minutes of a directive from the System Controller.
153 Spinning and supplemental reserves are required in order to restore frequency following the loss of generation in Alberta or in the Western Electricity Coordinating Council (“WECC”) region. Alberta must comply with WECC policies for maintaining specific volumes of spinning and supplemental reserves in order to maintain reliability.

154 About 90% of operating reserves volumes are competitively procured through the Alberta Watt Exchange (“Watt-Ex”), an electronic exchange where transactions reflect bids and offers of the AESO and market participants. The remaining 10% of operating reserves volumes are procured directly from suppliers through Over-The-Counter (“OTC”) transactions.

**Lines 17 to 20 Active Operating Reserves**

Active operating reserves are the operating reserves that are forecast by the AESO as necessary to operate the Alberta Interconnected Electric System (“AIES”) securely and meet the AESO’s reliability obligations to WECC. 2008 recorded costs were $244.1 million, which is $47.3 million (or 24%) more than the 2008 approved forecast of $196.8 million, and comprised the following amounts:

- For active regulating reserve, the 2008 recorded cost was $70.3 million, which is $14.7 million (or 26%) more than the 2008 approved forecast of $55.7 million.
- For active spinning reserve, the 2008 recorded cost was $94.7 million, which is $20.1 million (or 27%) more than the 2008 approved forecast of $74.6 million.
- For active supplemental reserve, the 2008 recorded cost was $79.1 million, which is $12.5 million (or 19%) more than the 2008 approved forecast of $66.5 million.

156 The increase in 2008 recorded costs compared to the approved forecast for all active operating reserves primarily results from the competitive determination of price through the operating reserves market. Active operating reserves are generally reflective of pool price, and more high pool price periods occurred in 2008 compared to prior years on which the 2008 forecast was developed. As well, higher recorded costs reflected a trend of smaller discounts relative to pool price, and in some cases premiums, for operating reserves.

157 In total, 2008 recorded active operating reserves volumes were 5,614 GWh, which is 154 GWh (or 3%) less than the 2008 approved forecast of 5,768 GWh.

**Lines 21 to 24 Standby Operating Reserves**

Standby reserves are additional reserves that are available to the System Controller in the event an active provider fails to provide active reserves, or if actual requirements are higher than the active reserve forecast. Payments for standby reserves include a premium paid for the option to activate the standby reserves and a price that is paid if the reserves are activated.

158 For standby regulating reserves premiums, the 2008 recorded cost was $7.4 million, which is $2.7 million (or 57%) more than the 2008 approved forecast of $4.7 million. For standby regulating reserves activations, the 2008 recorded cost was $1.3 million, which is $0.3 million (or 19%) less than the 2008 approved forecast of $1.6 million.
For standby spinning reserves premiums, the 2008 recorded cost was $4.9 million, which is $1.3 million (or 36%) more than the 2008 approved forecast of $3.6 million. For standby spinning reserves activations, the 2008 recorded cost was $7.1 million which is $3.1 million (or 78%) more than the 2008 approved forecast of $4.0 million.

For standby supplemental reserves premiums, the 2008 recorded cost was $1.9 million, which is $0.5 million (or 36%) more than the 2008 approved forecast of $1.4 million. For standby supplemental reserves activations, the 2008 recorded cost was $3.0 million, which is $0.1 million (or 3%) more than the 2008 approved forecast of $2.9 million.

Standby reserves volumes are only about one to two percent of active reserves volumes. Both standby reserves volumes and activations are quite small, and therefore particularly sensitive to unforecastable real-time conditions, including variances from load forecasts as well as unplanned generation and transmission outages, which affect the availability of active reserves providers. The different standby reserves services may also occasionally be substituted for each other at the time of procurement and result in offsetting volume variances between the different services.

Standby reserves prices are determined by the various offer strategies of the numerous providers involved in the market at any given time. As for active reserves, the cost variances for standby reserves reflected more high pool price periods in 2008 and a trend of smaller discounts relative to pool price, and in some cases premiums, for operating reserves.

In total, 2008 recorded standby operating reserves volumes were generally consistent with the 2008 approved forecast.

**Line 25 Trading Fees and Other Related Charges**

The 2008 recorded cost for trading fees and other related charges was a credit of $7.4 million. No corresponding amount was included in the approved forecast. The variance arose from unforecasted collections of non-compliance charges of $8.1 million, offset by trading costs to Watt-Ex of $0.7 million.

**Lines 27 to 35 Other Ancillary Services**

Other ancillary services include the remaining services that the AESO procures for the secure and reliable operation of the AES. These services are normally procured through bilateral contract negotiations with one or more suppliers, and include Brazeau fast ramp, black start, transmission must run (“TMR”), under frequency mitigation, Poplar Hill, and interruptible load remedial action scheme (“ILRAS”) services.

The 2008 recorded cost of other ancillary services was $50.1 million, which is $0.7 million (or 1%) less than the 2008 approved forecast of $50.8 million, due to prices being lower than forecast for Brazeau fast ramp, under frequency mitigation, and ILRAS services.

Brazeau fast ramp (previously included with generator remedial action scheme (“GRAS”)) service responds to a sudden loss of supply through the automatic and rapid adjustment of Brazeau generator operation. Brazeau fast ramp service stabilizes system frequency after a disturbance to avoid shedding firm load. The 2008 recorded cost of Brazeau fast ramp
service was $0.1 million, which is $0.6 million (or 83%) less than the 2008 approved forecast of $0.7 million due to the expiry of the contract with the Brazeau fast ramp service provider during 2008.

Under frequency mitigation is configured to automatically trip a specific amount of load if the system frequency drops below 59.5 Hz following a system disturbance. The service is procured by the AESO through contracts with service providers. The 2008 recorded cost for under frequency mitigation was $4.0 million, which is $1.0 million (or 20%) less than the 2008 approved forecast of $5.0 million due to contracted MW levels being lowered as a result of a change in operations at service providers’ facilities.

ILRAS supports the import capability of the Alberta-BC interconnection. If the Alberta-BC interconnection trips concurrent with high levels of import, the system will become generation deficient, system frequency will decline, and the AESO will be required to shed load quickly in Alberta to arrest the frequency decline and maintain system reliability. The AESO contracts for loads to automatically trip in these situations to limit the frequency decline and attempt to prevent shedding of additional system load. The 2008 recorded cost for ILRAS service was $0.009 million, which is $0.8 million (or 99%) less than the 2008 approved forecast of $0.8 million due to the continued provision of ILRAS under an early-2007 amendment to the service such that ILRAS is utilized only when the AIES is experiencing or expects an imminent supply shortfall.

The 2008 recorded costs for the remaining other ancillary services (black start, TMR, and Poplar Hill) did not vary significantly from the 2008 approved forecast.

3.1.3 Other Industry Costs

The 2008 recorded other industry costs were $11.5 million, which is $2.4 million (or 26%) more than the 2008 approved forecast of $9.1 million, primarily due to the AESO’s share of AUC overhead being higher than forecast offset by lower recorded external regulatory costs.

Line 37 External Regulatory Costs

External regulatory costs include cost recovery amounts related to the AESO’s regulatory proceedings. The staff, legal, and consulting costs in the administrative costs section of the AESO’s revenue requirement do not include AESO recoverable regulatory costs.

The 2008 recorded external regulatory costs were $0.8 million, which is $3.3 million (81%) less than the 2008 approved forecast of $4.1 million. In 2008, recorded external regulatory costs represented the recoverable costs of the AESO and registered participants related to the AESO’s 2007 general tariff application and Ancillary Services Article 11 negotiated settlement proceedings. The 2008 forecast amount had been based on the estimated cost recovery for several AESO proceedings which did not result in cost awards in 2008, including:

- the AESO’s next general tariff application, now planned to be filed in the third quarter of 2009;
- 2006 and 2007 deferral account reconciliations, incorporated into the 2004-2007 deferral account reconciliation application filed on June 2, 2008;
- recovery of costs for the KEG conversion of unit transformers, filed on April 14, 2008;
• interruptible load remedial action scheme (“ILRAS”) service provisions, for which alternatives are currently being explored with a stakeholder working group; and
• several need identification document (“NID”) filings, including the Lake Wabamun-Edmonton (“Heartland”) region, southern Alberta, and Calgary business district transmission developments, in various stages of planning, preparation, or application.

Line 39 Share of AUC Overhead

Starting in 2008 under the Alberta Utilities Commission Act, S.A. 2007, c. A-37.2, the AUC began to recover all of its costs from industry instead of the industry/government shared model used historically. As well, after an examination of cost allocation alternatives, the AUC implemented a model which allocated to the AESO all AUC costs related to transmission facility owners as well as to the AESO itself. As a result of these changes, the AESO’s 2008 recorded share of AUC costs was $8.6 million, which is $6.1 million (or 241%) more than the approved forecast of $2.5 million.

The 2008 recorded costs for the Western Electricity Coordinating Council (“WECC”) did not vary significantly from the 2008 approved forecast.

3.1.4 General and Administrative Costs

The 2008 recorded general and administrative costs were $51.3 million, which is $0.4 million (or 0.7%) less than the 2008 approved forecast of $51.7 million. This variance was primarily due to decreases in interest and amortization and depreciation, offset by increases in the cost of consulting and other administrative costs with smaller increases and decreases in other cost components.

Line 42 Consultants

Consultants are utilized by the AESO to assist in the completion of those tasks that require specialized skills that are neither resident in the AESO nor required by the AESO on an ongoing basis, and to address workload peaks. The 2008 recorded consulting costs were $7.7 million, which is $2.0 million (or 35%) more than the 2008 approved forecast of $5.8 million. This variance is due to increases resulting from utilizing consulting services on the following areas in 2008:
• supplemental staff to address new business initiatives and provide technical expertise;
• project management and specialized technical support on projects such as preparation of wind generation interconnection proposals, modifications to the system restoration training simulator, and maintenance of the transmission deferral account reporting system;
• business process and pre-development phases of future capital information technology projects including the dispatch tool architecture; and
• support for corporate information technology systems.

Line 49 Other Administrative Costs

The 2008 recorded other administrative costs were $4.2 million, which is $1.8 million (or 75%) more than the 2008 approved forecast of $2.4 million. This increase is primarily due to advertising, printing, mailing, and travel costs for the AESO’s participation in more comprehensive public education and consultation, as well as increased costs for recruiting.
Line 53 Interest
Interest expense includes interest incurred by the AESO on bank debt held to provide working capital and to fund capital purchases, credit facility standby fees, and fees charged related to the letter of credit issued as security for operating reserve procurement.

The 2008 recorded interest cost was $0.9 million, which is $0.8 million (or 46%) less than the 2008 approved forecast of $1.7 million. The variance is due primarily to reduced borrowing rates in 2008 and to the transmission deferral account net surplus held prior to the distribution of $51.1 million as part of the 2004-2007 deferral account reconciliation interim settlement in July 2008. The deferral account surplus offset debt balances which would otherwise be required to fund capital purchases and working capital, and accordingly reduced interest expense.

Line 54 Amortization and Depreciation
The amortization and depreciation amount is determined on a straight-line basis over the following terms:
- three to five (3-5) years for office equipment and computer hardware,
- five to seven (5-7) years for computer software,
- ten (10) years for System Coordination Centre facility infrastructure,
- eighteen (18) years (ending in 2025) for the System Coordination Centre, and
- the lease term (ending in 2014) for leasehold improvements.

The 2008 recorded amortization and depreciation costs were $4.4 million, which is $1.4 million (or 24%) less than the 2008 approved forecast of $5.8 million, primarily due to the majority of the purchasing or commissioning of assets being completed in the last few months of the year rather than earlier in the year as forecast.

The 2008 recorded costs for the remaining general and administrative components did not vary significantly from the 2008 approved forecast.

3.1.5 Capital
Capital investment is required by the AESO for the development of IT infrastructure necessary to support the transmission function, for its System Coordination Centre (“SCC”) facility and infrastructure, and for leasehold improvements, furniture, and equipment. Capital costs recorded in 2008 were $14.1 million, which is $8.3 million (or 143%) more than the 2008 approved forecast of $5.8 million, primarily due to three projects: AESO office renovations, the energy management system (“EMS”) upgrade, and the re-architecture of the dispatch tool.

Line 60 Calgary Place Office Renovations
To accommodate organizational growth, in 2007 the AESO acquired another half of a floor in the Calgary Place office building where its main office is located. In conjunction with development of the newly-acquired space, the utilization and effectiveness of existing space was assessed for the 4½ floors already occupied in the building. Enhancements were recommended to meet the AESO’s current and anticipated office space needs, including consolidating external meeting rooms, optimizing floor usage to allow additional workstations, and improving security and confidentiality. The renovations were to take place
over 2007 and 2008, and the total cost was expected to be $1.1 million which was approved by the AESO Board in June 2007.

187 Final costs for the project totalled $1.5 million due to unanticipated electrical and construction work and higher than forecast material costs. Recorded costs were $0.6 million in 2007 and $0.9 million in 2008. Transmission customers were allocated 76% of the renovation costs, with the 2007 portion reported as general capital for that year and the 2008 portion reported as a separate capital item of $0.7 million in Table 3-1 above. No corresponding amount had been included in the 2008 approved forecast.

**Line 61 Energy Management System (“EMS”) Upgrade**

188 The EMS upgrade is a major capital project to replace the AESO’s current system which is reaching the end of vendor support and is not compliant with current security standards including some requirements of NERC reliability standards related to cyber security. The EMS upgrade is a multi-year project expected to be completed in 2010, and was initially presented to stakeholders as part of the AESO’s 2007 budget review process. The EMS project had significant scope changes in 2008 to incorporate new Enterprise Services Bus (“ESB”) technology and related service changes to permit operation at a higher level of flexibility and reliability. Scope and budget changes were presented to stakeholders during 2008, with a final budget amendment of $6.3 million approved by the AESO Board on March 25, 2009. The revised total budget amount for the EMS upgrade is now $20.7 million, including both capital and operating costs associated with the project.

189 By the end of 2008, $9.4 million in capital costs and $0.2 million in operating costs had been incurred in accordance with the progress of the project, with $0.2 million reported as general capital for 2007 and $9.2 million reported as a separate project for 2008. Transmission customers were allocated 67% of the capital costs, resulting in the $6.2 million recorded in Table 3-1 above. Subject to review at the completion of the project, transmission customers will be allocated a total of $13.9 million based on the project’s approved budget.

**Line 62 Dispatch Tool Re-Architecture**

190 The AESO’s dispatch tool is one of the primary systems used to operate Alberta’s energy market. The current dispatch tool architecture (that is, how the components of the system function together) is not able to reliably support software changes required by upcoming initiatives including wind integration, congestion management, and reliability assessment. At the time of preparation of the AESO’s 2008 budget, the extent of the current dispatch tool limitations were not anticipated and the dispatch tool architecture improvements were not included. The critical requirement to improve the dispatch tool architecture was presented to stakeholders during 2008 with a budget request of $2.2 million, of which $1.8 million has been incurred by the end of 2008 in accordance with the progress of the project. Subject to review at the completion of the project, transmission customers will be allocated 67% of the costs of this project, which at this time would be $1.5 million based on the project’s approved budget.
3.2 2008 Revenue Variances

Table 3-2 presents AESO revenue (excluding revenue related to losses) forecast to be collected from base rates in effect during 2008. The table also includes recorded revenue as collected through 2008 base rates, as well as variances between forecast and recorded revenues in both dollar amounts and as a percentage of forecast revenue.

Base rates exclude Deferral Account Adjustment Rider C, which collects or refunds revenue during the year to align actual revenue with actual costs by rate and rate component. The AESO does not forecast Rider C amounts as part of its tariff applications, and Rider C is therefore not included in this discussion of variances from forecast.

The base rates which were in effect from January through July 2008 were approved at the conclusion of the AESO’s 2006 GTA proceeding, in Order U2005-464 released on December 20, 2005. Those rates were based on the AESO’s 2006 forecast revenue requirement and 2006 forecast billing determinants.

The base rates which were in effect from August through December 2008 were approved at the conclusion of the AESO’s 2007 GTA proceeding, in Order U2008-217 released on June 25, 2008. Those rates were based on the AESO’s 2007 forecast revenue requirement and 2007 forecast billing determinants.

To calculate the 2008 forecast revenue presented in Table 3-2, the AESO applied the rates in effect in each month of 2008 to its corresponding forecast of billing determinants for 2008. Those billing determinants were in turn based on the 2008 load forecast in the AESO’s Future Demand and Energy Outlook (2007-2027), which is the AESO’s long-term load forecast prepared in accordance with the AESO’s duties under the EUA and the Transmission Regulation. The Future Demand and Energy Outlook is available on the AESO website at www.aeso.ca by following the path Transmission ► Planning ► Load Forecasting.

On an annual basis, transmission revenue depends on approved transmission tariff rates, pool price, and billed volumes of demand and energy. Variances arise due to unanticipated

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Forecast Revenue</th>
<th>Recorded Revenue</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$492.5</td>
<td>$494.3</td>
<td>$1.8</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>178.9</td>
<td>183.5</td>
<td>4.6</td>
</tr>
<tr>
<td>3</td>
<td>Voltage Control</td>
<td>55.9</td>
<td>52.1</td>
<td>(3.9)</td>
</tr>
<tr>
<td>4</td>
<td>Other System Support</td>
<td>9.1</td>
<td>8.3</td>
<td>(0.9)</td>
</tr>
<tr>
<td>5</td>
<td>Total DTS</td>
<td>$736.4</td>
<td>$738.1</td>
<td>$1.7</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.
changes from forecasts of billing volumes and pool price. The 2008 recorded DTS base rates revenue in column (b) of Table 3-2 totaled $738.1 million, which is $1.7 million (or 0.2%) more than the 2008 forecast revenue of $736.4 million. The base rate revenue variances for individual DTS rate components varied from about 9% below forecast to about 3% above forecast, as discussed below.

197 The 2008 recorded base rate revenue for operating reserve was $183.5 million, which is $4.6 million (or 3%) more than the 2008 forecast revenue of $178.9 million. Operating reserve charges in the AESO’s tariffs in effect during 2008 were determined as a percentage of pool price, and recorded pool price during 2008 averaged $89.95/MWh — about 6% higher than the forecast pool price of $84.81 on which the 2008 forecast operating reserve revenue was based.

198 The 2008 recorded revenue for voltage control was $52.1 million, which is $3.9 million (or 7%) less than the 2008 forecast revenue of $55.9 million. The 2008 recorded revenue for other system support services was $8.3 million, which is $0.9 million (or 9%) less than the 2008 forecast revenue of $9.1 million. The decreases in both cases primarily result from billing volumes being lower than forecast due to the short-term slowdown in economic growth in Alberta arising from global economic events during 2008.

199 The interconnection base rate revenue variance was 0.4% above forecast, which is considered small enough that a specific variance explanation is not required.

3.3 2008 Deferral Account Balance

200 Costs and revenue variances through the year give rise to deferral account balances. The deferral account balances for 2008 are summarized in Table 3-3, and reflect the 2008 recorded costs and revenue provided in Tables 3-1 and 3-2 respectively. Table 3-3 also includes Deferral Account Adjustment Rider C, which collects or refunds revenue to align actual revenues with actual costs by rate and rate component.

201 As noted in section 1.1 of this application, the AESO’s tariff includes the use of deferral accounts, which were incorporated in the AESO’s 2008 tariff through Working Capital Deficiency/Surplus Rider B and Deferral Account Adjustment Rider C. The AESO did not invoke Rider B during 2008, but determined Rider C charges and refunds in accordance with the rider’s approved purpose to “restore deferral account balances to zero over the following calendar quarter”. The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of the quarter and forecast billing volumes for the quarter.

202 The total recorded revenue collected with respect to 2008 is therefore the sum of revenue collected through base rates as discussed in section 3.2 above, plus revenue collected or refunded through Rider C during 2008.

203 The AESO notes that Rider C revenue attributed to a specific year has historically included amounts collected or refunded during the calendar year and in the first quarter of the following year. Rider C amounts in the first quarter of a year have therefore historically
Table 3-3 2008 Deferral Account Summary (Excluding Losses), $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Recorded Base Rate Revenue (a)</th>
<th>Recorded Costs (b)</th>
<th>Rider C Collection Collected (Refunded) (c)+(d)</th>
<th>Net Over (Under) Collection Variance (e)+(d)÷(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$494.3 ($563.9)</td>
<td>($69.6)</td>
<td>$61.8 ($7.8)</td>
<td>($138.2)</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>183.5 (264.3)</td>
<td>(80.8)</td>
<td>83.1</td>
<td>2.3 (0.9%)</td>
</tr>
<tr>
<td>3</td>
<td>Voltage Control</td>
<td>52.1 (42.1)</td>
<td>10.0</td>
<td>(9.7)</td>
<td>0.3 (0.8%)</td>
</tr>
<tr>
<td>4</td>
<td>Other System Support</td>
<td>8.3 (6.0)</td>
<td>2.2</td>
<td>(1.8)</td>
<td>0.5 (7.8%)</td>
</tr>
<tr>
<td>5</td>
<td>Total DTS</td>
<td>$738.1 ($876.3)</td>
<td>($138.2)</td>
<td>$133.5 ($4.6)</td>
<td>(0.5%)</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

204 Previous deferral account reconciliations have been filed later in the following year, meaning that first quarter Rider C amounts could be included in their entirety. However, as explained in section 2.8 (page 27) of the 2004-2007 deferral account reconciliation application, the AESO planned to prepare the 2008 reconciliation after initial settlement of December 2008 volumes. This would occur before collection or refund of the 2009 first quarter Rider C amounts was complete. The AESO therefore modified its process to exclude the 2008 deferral account year-end balances from the determination of Rider C for the first quarter of 2009. Deferral account year-end amounts for 2008 were not refunded or collected as part of the 2009 first quarter Rider C, but were retained by the AESO for reconciliation in this application.

205 The AESO conducted limited informal consultation on this change as discussed in Appendix A-1 of this application.

206 In general, Rider C collections and refunds for 2008 maintained annual deferral account balances at reasonable levels of less than ±2% of costs for all rate components except other system support services charges, which were overcollected by 8% of costs. This overcollection primarily resulted from the decrease in recorded cost for under frequency mitigation discussed in section 3.1.2 of this application.

207 Additional details on 2008 recorded costs and revenues are provided in Appendices B through F of this application. The allocation of the 2008 net deferral account balances to customers is discussed in section 10 of this application.
207 The AESO’s 2007 costs and revenues which are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, and the AESO’s own administration (which includes other industry costs and general and administrative costs).

208 As discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective reconciliation. Since that time, Calibration Factor Rider E has adjusted loss factors for the recovery of the actual costs of losses on a prospective basis in accordance with section 33(1) of the Transmission Regulation. Therefore, the financial results and deferral account balance for 2007 discussed in this section do not include costs and revenues related to losses.

4.1 2007 Deferral Account Second Reconciliation

210 The AESO filed a first reconciliation of its 2007 deferral accounts as part of its 2004-2007 deferral account reconciliation application submitted to the AUC on June 2, 2008. That first reconciliation included all cost and revenue transactions (except those related to losses) that occurred from January 1, 2007, to March 31, 2008 and that related to 2007. The first reconciliation deferral account balance for 2007 was a surplus of $2.0 million (including the AESO’s proposed redistribution of interest) as provided in Table 2-6 in this application. The first reconciliation balance was settled with customers in July 2008 in accordance with the interim approval of the AESO’s 2004-2007 deferral account reconciliation application in AUC Order U2008-253, released on July 17, 2008.

211 The first reconciliation resulted in $741.7 million in costs and $741.7 million in customer revenues (including Rider C collections and refunds as well as interim settlement collections and refunds) being attributed to 2007.

212 In this 2008 deferral account reconciliation application, the second reconciliation for 2007 includes cost and revenue transactions (except those related to losses) that relate to 2007 and that occurred from January 1, 2007 to December 31, 2008. These transactions establish the 2007 production month data for second reconciliation purposes in this application. Compared to the first reconciliation, this second reconciliation includes additional transactions that relate to 2007 and that occurred after March 31, 2008 up to December 31, 2008.

213 The inclusion of these additional transactions increases the 2007 recorded costs to $743.0 million and decreases the 2007 recorded revenue slightly to $741.6 million.

214 Revenue and cost transactions that occurred from January 1, 2007, to December 31, 2008 may also relate, in whole or in part, to years other than 2007. In such instances, the transaction (or part of the transaction) which relates to another year has been assigned to the relevant year, in accordance with the production month presentation described in section 2.2 of this application. Where the transaction (or part of the transaction) relates to losses prior to 2006, it also has been assigned to the prior year. Detail on the assignment
between 2007 and other years for transactions which occurred in 2007 and 2008 is provided in Appendix E-1 of this application.

4.2 2007 Cost Adjustments After First Reconciliation

215 The AESO’s 2007 revenue requirement (excluding losses) was approved in AUC Decision 2008-037 on the AESO’s 2007 General Tariff Application Refiling, released on May 8, 2008, and is provided as column (a) in Table 4-1. Variances of recorded costs from that approved forecast were explained in the first reconciliation of the 2007 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009, with the exception of the proposed redistribution of interest discussed in section 2.3 of this application. No further discussion of those variances is provided in this application. Only 2007 cost adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

216 Specifically, the 2007 cost adjustments (excluding those related to losses) which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:

- relate to 2007,
- occurred after the cut-off date of March 31, 2008 for data included in the 2007 first reconciliation, and
- occurred up to December 31, 2008.

217 These 2007 cost adjustments, together with the original 2007-related transactions which were included in the first reconciliation, establish the 2007 production year cost data for deferral account reconciliation purposes in this application.

218 Table 4-1 includes the following information for 2007:

- column (b) contains the 2007 recorded costs included in the first reconciliation in the 2004-2007 application (including the redistribution of interest which is removed in this application as discussed in section 2.3 of this application);
- column (c) contains the 2007 recorded costs included in this application;
- column (d) provides the additional amounts attributed to 2007 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the cost variances between the first and second reconciliations; and
- column (e) provides the 2007 additional amounts from column (d) as a percentage of the recorded costs from the first reconciliation in column (b).

219 As already discussed in the previous sections of this application, variances arise due to a number of factors, including finalization of TFO costs through AUC decisions, variances from forecast of volumes and pool price, delays and changes in AESO schedules and priorities, and generally expected adjustments that occur over time. In the first reconciliation for 2007, in the 2004-2007 deferral account reconciliation application, the AESO considered a line item variance to be significant when it exceeded ±$4.0 million, or, if it was smaller than
### Table 4-1  2007 First and Second Reconciliation Cost Variances (Excluding Losses), $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Forecast</th>
<th>1st DAR ¹</th>
<th>2nd DAR ¹</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Approved</td>
<td>2004-2007</td>
<td>2008</td>
<td>$(d) = (c) - (b)</td>
</tr>
<tr>
<td>Wires</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TFO Wires-Related Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>AltaLink</td>
<td>208.0</td>
<td>208.0</td>
<td>208.0</td>
</tr>
<tr>
<td>2</td>
<td>ATCO Electric Ltd.</td>
<td>169.5</td>
<td>169.5</td>
<td>169.5</td>
</tr>
<tr>
<td>3</td>
<td>Isolated Generation</td>
<td>(7.9)</td>
<td>(5.9)</td>
<td>(5.9)</td>
</tr>
<tr>
<td>4</td>
<td>Subtotal ATCO Costs</td>
<td>161.6</td>
<td>163.6</td>
<td>163.6</td>
</tr>
<tr>
<td>5</td>
<td>Enmax Power Corporation</td>
<td>31.9</td>
<td>31.9</td>
<td>31.9</td>
</tr>
<tr>
<td>6</td>
<td>EPCOR Transmission Inc.</td>
<td>36.8</td>
<td>36.8</td>
<td>34.7</td>
</tr>
<tr>
<td>7</td>
<td>City of Lethbridge</td>
<td>4.4</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td>8</td>
<td>TransAlta</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>9</td>
<td>Refund to the AESO</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Subtotal TransAlta Costs</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>11</td>
<td>City of Red Deer</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>12</td>
<td>FortisAlberta Networks (Farm)</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>13</td>
<td>Subtotal TFO Wires-Related Costs</td>
<td>450.0</td>
<td>452.1</td>
<td>449.9</td>
</tr>
<tr>
<td>Non-Wires Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Invitation to Bid on Credits (IBOC)</td>
<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>15</td>
<td>Location Based Credit Standing Offer (LBC SO)</td>
<td>6.8</td>
<td>5.8</td>
<td>5.7</td>
</tr>
<tr>
<td>16</td>
<td>Subtotal IBOC/LBC SO Costs</td>
<td>8.5</td>
<td>7.4</td>
<td>7.4</td>
</tr>
<tr>
<td>17</td>
<td>TOTAL WIRES COSTS</td>
<td>458.5</td>
<td>459.4</td>
<td>457.2</td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>Operating Reserves</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Regulating</td>
<td>34.7</td>
<td>46.7</td>
<td>46.7</td>
</tr>
<tr>
<td>19</td>
<td>Spinning</td>
<td>41.1</td>
<td>64.9</td>
<td>64.9</td>
</tr>
<tr>
<td>20</td>
<td>Supplemental</td>
<td>32.0</td>
<td>56.1</td>
<td>56.1</td>
</tr>
<tr>
<td>21</td>
<td>Subtotal Active Reserves</td>
<td>107.8</td>
<td>167.7</td>
<td>167.7</td>
</tr>
<tr>
<td>Standby</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Regulating</td>
<td>4.6</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>23</td>
<td>Spinning</td>
<td>5.7</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>24</td>
<td>Supplemental</td>
<td>3.1</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>25</td>
<td>Subtotal Standby Reserves</td>
<td>13.4</td>
<td>17.8</td>
<td>17.8</td>
</tr>
<tr>
<td>Other Ancillary Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Trading Fees &amp; Other Related Charges</td>
<td>-</td>
<td>(4.8)</td>
<td>(4.8)</td>
</tr>
<tr>
<td>27</td>
<td>Subtotal Operating Reserves</td>
<td>121.2</td>
<td>180.7</td>
<td>180.7</td>
</tr>
</tbody>
</table>

¹ 1st DAR: 1st Deferral Account Reconciliation
2nd DAR: 2nd Deferral Account Reconciliation
### Table 4-1 2007 First and Second Reconciliation Cost Variances (Excluding Losses), $ 000 000 (continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast</th>
<th>Recorded Costs 2004-2007</th>
<th>2008</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>$(d)=(c)-(b) (e)=(d)/(b)</td>
</tr>
<tr>
<td><strong>Poplar Hill/ILRAS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Poplar Hill</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>34</td>
<td>Interruptible Load Remedial Action Scheme</td>
<td>0.7</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>35</td>
<td>Generator Remedial Action Scheme (RAS)</td>
<td>0.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>Subtotal Poplar Hill/ILRAS</td>
<td>3.1</td>
<td>2.0</td>
<td>2.0</td>
</tr>
<tr>
<td>37</td>
<td>TOTAL ANCILLARY SERVICES</td>
<td>184.5</td>
<td>232.8</td>
<td>236.7</td>
</tr>
<tr>
<td><strong>OTHER INDUSTRY COSTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>External Regulatory Costs</td>
<td>1.1</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>39</td>
<td>Western Electricity Coordinating Council (WECC)</td>
<td>2.2</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>40</td>
<td>Share of AUC Overhead</td>
<td>2.2</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>41</td>
<td>TOTAL OTHER INDUSTRY COSTS</td>
<td>5.5</td>
<td>4.8</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>GENERAL AND ADMINISTRATIVE COSTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Administrative Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Staff and Benefits</td>
<td>24.4</td>
<td>23.9</td>
<td>23.9</td>
</tr>
<tr>
<td>43</td>
<td>Consultants</td>
<td>3.3</td>
<td>5.9</td>
<td>5.9</td>
</tr>
<tr>
<td>44</td>
<td>Board Members Fees</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>45</td>
<td>Travel and Training</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>46</td>
<td>Legal</td>
<td>0.4</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>47</td>
<td>Audits/Reviews</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>48</td>
<td>Rent ^2</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>49</td>
<td>Insurance</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>50</td>
<td>Other Administrative Costs</td>
<td>1.5</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>51</td>
<td>Telecomm and IT Maintenance</td>
<td>2.1</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>52</td>
<td>Interconnection Fees (Offset)</td>
<td>(0.2)</td>
<td>(0.0)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>53</td>
<td>Total Administrative Costs</td>
<td>35.7</td>
<td>39.1</td>
<td>39.0</td>
</tr>
<tr>
<td></td>
<td>General Costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>Interest</td>
<td>1.2</td>
<td>1.8</td>
<td>1.4</td>
</tr>
<tr>
<td>55</td>
<td>Amortization and Depreciation</td>
<td>4.4</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>56</td>
<td>Taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>57</td>
<td>Total General Costs</td>
<td>5.6</td>
<td>5.7</td>
<td>5.3</td>
</tr>
<tr>
<td>58</td>
<td>TOTAL GENERAL &amp; ADMIN COSTS</td>
<td>41.3</td>
<td>44.8</td>
<td>44.3</td>
</tr>
<tr>
<td>59</td>
<td>Total G&amp;A and Other Industry Costs</td>
<td>46.8</td>
<td>49.6</td>
<td>49.1</td>
</tr>
<tr>
<td>60</td>
<td>TOTAL REVENUE REQUIREMENT</td>
<td>689.8</td>
<td>741.7</td>
<td>743.0</td>
</tr>
</tbody>
</table>
### Table 4-1 2007 First and Second Reconciliation Cost Variances (Excluding Losses), $ 000 000 (continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Forecast</th>
<th>Approved</th>
<th>1st DAR ¹</th>
<th>2nd DAR ¹</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td>61</td>
<td>General Capital</td>
<td>4.2</td>
<td>3.9</td>
<td>3.9</td>
<td>-</td>
</tr>
<tr>
<td>62</td>
<td>System Coordination Centre</td>
<td>-</td>
<td>0.2</td>
<td>0.2</td>
<td>-</td>
</tr>
<tr>
<td>63</td>
<td>Total Capital</td>
<td>-</td>
<td>4.1</td>
<td>4.1</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Notes:
- Numbers may not add due to rounding.
- Shaded numbers indicate significant variances which are discussed in the text.

¹ DAR means Deferral Account Reconciliation.
² Amortization of Rent Free Period not included in 2007 Recorded Costs on Line 46.

±$4.0 million, when it was both at least ±$0.4 million and at least ±10% of the approved line item amount.

In this second reconciliation for 2007, variances are represented by cost adjustments which occurred after the first reconciliation. It seems inappropriate to use the same threshold levels for variance explanations for adjustments as would be used in a first reconciliation. The AESO considers it reasonable to reduce the variance explanation thresholds by half, recognizing that costs may have varied from forecast in the first reconciliation and may also vary again due to further adjustments in this second reconciliation. Although each variance might be less than the ±$4.0 million threshold, together they may exceed it.

Therefore, in Table 4-1, the AESO considered a line item variance to be significant when it exceeded ±$2.0 million, or, if it was smaller than ±$2.0 million, when it was both at least ±$0.2 million and at least ±5% of the first reconciliation recorded costs item amount. Variances exceeding these thresholds are shaded in Table 4-1, with explanations provided by line number in the following discussion. Where variances were either less than ±$0.2 million or less than ±5% (except where such variance is ±$2.0 million or greater), explanations are not provided, as such variances are considered small enough that specific variance explanations are not required.

#### 4.2.1 Wires Costs

The 2007 first reconciliation recorded costs for TFO wires was based on actual billings by the TFOs to the AESO for 2007 under final or interim approved tariffs at the time of the AESO’s 2004-2007 deferral account reconciliation application. The second reconciliation recorded costs were similarly based on actual billings by the TFOs to the AESO but under final or interim 2007 tariffs approved for TFOs prior to December 31, 2008.

The AESO notes that final approval has not yet been issued for the 2007 TFO tariff of ENMAX Power Corporation. If that TFO’s final tariff differs from the interim tariff included in the 2007 wires costs in this deferral account reconciliation, the difference will be included in the next deferral account reconciliation application filed after the final tariff is approved.
Line 6 EPCOR Transmission Inc.

The 2007 second reconciliation recorded cost for EPCOR Transmission wires was $34.7 million, which is $2.2 million (or 6%) less than the first reconciliation recorded cost of $36.8 million. The first reconciliation cost was from AUC Order 2006-315 released on December 15, 2006, which approved EPCOR’s 2007 interim transmission facility owner tariff. The second reconciliation cost was from AUC Decision 2008-125 released on December 3, 2008, which approved EPCOR’s 2007-2009 transmission facility owner tariff on a final basis.

4.2.2 Ancillary Services

The 2007 second reconciliation recorded costs for ancillary services were $236.7 million, which is $3.9 million (or 2%) more than the first reconciliation recorded costs of $232.8 million, due primarily to adjustments for unforeseeable TMR service in accordance with AUC Decision 2008-014 as discussed in more detail below.

Lines 30 Transmission Must Run (“TMR”) Service

TMR is generation required to be on-line and operating at specific levels in particular parts of the AIES in order to ensure system security. The majority of TMR service is foreseeable, which the AESO generally procures through a competitive procedure resulting in commercial agreements between the AESO and TMR suppliers. When the TMR service is unforeseeable, the AESO may conscript and pay suppliers under the methodology detailed in Article 11 of the AESO’s tariff.

The 2007 second reconciliation recorded TMR cost was $46.5 million, which is $4.0 million (or 9%) more than the first reconciliation recorded cost of $42.5 million, due primarily to adjustments for unforeseeable TMR service as discussed below.

AUC Decision 2008-014, released on February 12, 2008, approved the AESO’s Ancillary Services Article 11 Negotiated Settlement. That decision finalized a compensation methodology to be retrospectively applied to the period December 17, 2004 until February 12, 2008, inclusive, with all costs incurred by the AESO for conscripted TMR service during that period to be adjusted by application of the pricing provisions found in the approved Article 11.6.

The decision excluded costs for foreseeable TMR service from the Rainbow Lake generating units, which were finalized in early 2008 through a commercial agreement with ATCO Power as confirmed in a letter from the AESO to the AUC dated March 20, 2008. All adjustments to compensation for TMR service provided by the Rainbow Lake generating units with respect to 2007 and prior years were therefore included and approved as part of the AESO’s 2004-2007 deferral account reconciliation application.

The majority of costs for unforeseeable TMR service from December 17, 2004 until February 12, 2008 were finalized during 2008. Those costs include the following amounts for the deferral account years included in this application:

- 2008: $0.0 million (January 1 – February 12, 2008)
- 2007: $4.5 million
- 2006: $0.0 million
- 2005: $0.5 million
• 2004: $0.4 million (December 17–31, 2004)
• Total: $5.4 million

In Revised Information Response Comm.AEOS-001 (d) provided in Appendix N-1 to the AESO’s 2004-2007 deferral account reconciliation application, the AESO indicated that it expected on the order of $2 million of adjustments related to unforeseeable TMR services provided under Article 11 in 2004 and 2005. The amounts paid by the AESO to December 31, 2008 for those years total $0.9 million as indicated above, which is about 44% of the expected amount and reflects the uncertainty in the AESO’s estimate of the impact of the recently-approved Article 11 provisions at the time the information response was prepared.

The AESO also notes that a potential $0.6 million of adjustments for unforeseeable TMR services remains under review before finalization for 2004 to 2007. That amount is not included in this application as listed above. The $0.6 million amount will be included in a future deferral account reconciliation application after finalization and payment by the AESO.

4.2.3 General and Administrative Costs

The 2007 second reconciliation recorded general and administrative costs were $44.3 million, which is $0.5 million (or 1%) less than the first reconciliation recorded costs of $44.8 million, due to the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application.

Line 54 Interest

Interest expense includes interest incurred by the AESO on bank debt held to provide working capital and to fund capital purchases, credit facility standby fees, and fees charged related to the letter of credit issued as security for operating reserve procurement. The 2007 second reconciliation recorded interest expense was $1.4 million, which is $0.5 million (or 25%) less than the first reconciliation recorded expense of $1.8 million, due to the removal of the redistribution of interest.

In the 2007 first reconciliation, interest expense included $0.5 million reflecting the proposed recognition of interest on deferral account balances and its redistribution between production years and months. That amount has been removed in this 2007 second reconciliation in accordance with the AUC’s order in Decision 2009-010 on the AESO’s 2004-2007 deferral account reconciliation application, as discussed in section 2.3 of this application.

4.3 2007 Revenue Adjustments After First Reconciliation

The AESO’s 2007 forecast “base rate” revenue (excluding losses) was discussed in the 2004-2007 deferral account reconciliation application. Base rates exclude Deferral Account Adjustment Rider C, which collects or refunds revenue during the year to align actual revenue with actual costs by rate and rate component (excluding losses). The AESO does not forecast Rider C amounts as part of its tariff applications, and Rider C is therefore not included in this discussion of variances from forecast. Base rate revenue also excludes any amounts collected or refunded through deferral account reconciliation applications.
Variances of recorded base rate revenue from the 2007 forecast were explained in the first reconciliation of the 2007 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009. No further discussion of those base rate revenue variances is provided in this application. Only revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

Specifically, the 2007 revenue adjustments (excluding those related to losses) which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:

- relate to 2007,
- occurred after the cut-off date of March 31, 2008 for data included in the 2007 first reconciliation, and
- occurred up to December 31, 2008.

These 2007 revenue adjustments, together with the original 2007-related transactions which were included in the first reconciliation, establish the 2007 production year revenue data for deferral account reconciliation purposes in this application.

Table 4-2 accordingly includes the following information for 2007:

- column (b) contains the 2007 recorded base rate revenue included in the first reconciliation in the 2004-2007 application;
- column (c) contains the 2007 recorded base rate revenue included in this application;
- column (d) provides the additional base rate revenue amounts attributed to 2007 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the revenue variances between the first and second reconciliations; and
- column (e) provides the 2007 additional revenue amounts from column (d) as a percentage of the recorded revenue from the first reconciliation in column (b).

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Recorded Revenue</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Forecast 2004-2007</td>
<td>1st DAR ¹</td>
<td>2nd DAR ¹</td>
</tr>
<tr>
<td></td>
<td>Revenue (a)</td>
<td>(b)</td>
<td>(c)</td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$478.8</td>
<td>$478.8</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>145.5</td>
<td>145.9</td>
</tr>
<tr>
<td>3</td>
<td>Voltage Control</td>
<td>53.6</td>
<td>52.8</td>
</tr>
<tr>
<td>4</td>
<td>Other System Support</td>
<td>7.7</td>
<td>8.0</td>
</tr>
<tr>
<td>5</td>
<td>Total DTS</td>
<td>$685.6</td>
<td>$685.6</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.
The 2007 second reconciliation recorded revenue (excluding revenue related to losses) was $685.5 million, which is $0.1 million (or 0.01%) less than the first reconciliation recorded revenue of $685.6 million.

On an annual basis, transmission revenue depends on approved transmission tariff rates, pool price, and billed volumes of demand and energy. Revenue variances after the first reconciliation generally arise due to billing adjustments, primarily reflecting changes to metered volumes such as those that occur in interim and final settlement. There were no significant variances between the first and second reconciliation recorded revenues for 2007.

### 4.4 2007 Second Reconciliation Deferral Account Balance

Costs and revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2007 second reconciliation are summarized in Table 4-3, and reflect the 2007 second reconciliation costs and revenues provided in Table 4-1 and 4-2 respectively.

As noted in section 1.1 of this application, the AESO’s tariff includes the use of deferral accounts, which were incorporated in the AESO’s 2007 tariff through Working Capital Deficiency/Surplus Rider B and Deferral Account Adjustment Rider C. The AESO did not invoke Rider B during 2007, but determined Rider C charges and refunds in accordance with the rider’s approved purpose to “restore deferral account balances to zero over the following calendar quarter”. The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of that quarter and forecast billing volumes for that quarter. Rider C charges and refunds attributed to 2007 are provided in column (d) of Table 4-3.

The first reconciliation of the 2007 deferral account in the AESO’s 2004-2007 deferral account reconciliation application resulted in a $2.0 million surplus attributed to 2007, as illustrated in Table 2-6 in section 2.4 of this application. The first reconciliation surplus was

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Recorded Base Rate Revenue (a)</th>
<th>Recorded Costs (b)</th>
<th>Over (Under) Collection (c)=(a)+(b)</th>
<th>Prior Deferral Account Collections (Refunds)</th>
<th>Net Over (Under) Collection (d)</th>
<th>1st DAR (^1) (e)</th>
<th>$ (f)=Σ(c);(e) (g)=-(f)+(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Transmission Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>$478.7</td>
<td>($506.3)</td>
<td>($27.6)</td>
<td>$34.1</td>
<td>($3.9)</td>
<td>$2.5</td>
<td>0.5%</td>
</tr>
<tr>
<td>2</td>
<td>145.9</td>
<td>(183.3)</td>
<td>(37.4)</td>
<td>36.8</td>
<td>0.6</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>3</td>
<td>52.8</td>
<td>(46.5)</td>
<td>6.3</td>
<td>(11.6)</td>
<td>1.3</td>
<td>(4.0)</td>
<td>(8.6%)</td>
</tr>
<tr>
<td>4</td>
<td>8.0</td>
<td>(6.9)</td>
<td>1.1</td>
<td>(1.2)</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>5</td>
<td><strong>Total DTS</strong></td>
<td><strong>$685.5</strong></td>
<td><strong>($743.0)</strong></td>
<td><strong>$58.1</strong></td>
<td><strong>($2.0)</strong></td>
<td><strong>($1.4)</strong></td>
<td><strong>(0.2%)</strong></td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

\(^1\) DAR means Deferral Account Reconciliation.
refunded to customers in the interim settlement in late July 2008 of the AESO’s 2004-2007 deferral account balances approved in AUC Order U2008-253. First reconciliation interim settlement amounts attributed to 2007 are provided in column (e) of Table 4-3, and restored all 2007 deferral account balances to zero based on the transactions included in the 2007 first reconciliation.

However, this second reconciliation includes adjustments to costs and revenues that occurred after the first reconciliation of the 2007 deferral account, as discussed in sections 4.2 and 4.3 where explanations were provided when the resulting line item variances were significant.

One of the significant adjustments resulted from the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application. As explained in section 2.3 of this application, the removal of the interest redistribution affects the different rate component deferral accounts to varying degrees. For 2007, the removal of the interest redistribution affects the interconnection charge deferral account.

The interconnection charges deferral account balance has decreased to an overcollection of $2.5 million (or 0.5% of recorded costs), primarily due to:

- the adjustment resulting from AUC Decision 2008-125 on the final 2007 TFO tariff for EPCOR Transmission as discussed in section 4.2.1, and
- the removal of the redistribution of interest as discussed in section 4.2.3.

The voltage control charges deferral account balance has increased to an undercollection of $4.0 million (or 9% of recorded costs), primarily due to adjustments for unforeseeable TMR services in 2007 as discussed in section 4.2.2.

Deferral account balances for operating reserve and other system support charges have not changed significantly from the first reconciliation. The impact of all 2007 cost and revenue adjustments is a deferral account net balance decrease to an undercollection of $1.4 million (or 0.2% of recorded costs), compared to the zero balance that existed after interim settlement of amounts included in the first reconciliation.

Additional details on 2007 recorded costs and revenues are provided in Appendices B through G of this application. The allocation of the 2007 net deferral account balances to customers is discussed in section 10 of this application.
5 2006 FINANCIAL RESULTS AND DEFERRAL ACCOUNT BALANCE

252 The AESO’s 2006 costs and revenues which are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, and the AESO’s own administration (which includes other industry costs and general and administrative costs).

253 As discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective reconciliation. Since that time, Calibration Factor Rider E has adjusted loss factors for the recovery of the actual costs of losses on a prospective basis in accordance with section 33(1) of the Transmission Regulation. Therefore, the financial results and deferral account balance for 2007 discussed in this section do not include costs and revenues related to losses.

5.1 2006 Deferral Account Second Reconciliation

254 The AESO filed a first reconciliation of its 2006 deferral accounts as part of its 2004-2007 deferral account reconciliation application submitted to the AUC on June 2, 2008. That first reconciliation included all cost and revenue transactions (except those related to losses) that occurred from January 1, 2006, to March 31, 2008 and that related to 2006. The first reconciliation deferral account balance for 2006 was a surplus of $11.3 million (including the AESO’s proposed redistribution of interest) as provided in Table 2-6 in this application. The first reconciliation balance was settled with customers in July 2008 in accordance with the interim approval of the AESO’s 2004-2007 deferral account reconciliation application in AUC Order U2008-253, released on July 17, 2008.

255 The first reconciliation resulted in $704.3 million in costs and $704.3 million in customer revenues (including Rider C collections and refunds as well as interim settlement collections and refunds) being attributed to 2006.

256 In this 2008 deferral account reconciliation application, the second reconciliation for 2006 includes cost and revenue transactions (except those related to losses) that relate to 2006 and that occurred from January 1, 2006 to December 31, 2008. These transactions establish the 2006 production month data for second reconciliation purposes in this application. Compared to the first reconciliation, this second reconciliation includes additional transactions that relate to 2006 and that occurred after March 31, 2008 up to December 31, 2008.

257 The inclusion of these additional transactions decreases the 2006 recorded costs to $702.3 million. The 2006 recorded revenue remained unchanged at $704.3 million.

258 Revenue and cost transactions that occurred from January 1, 2006, to December 31, 2008 may also relate, in whole or in part, to years other than 2006. In such instances, the transaction (or part of the transaction) which relates to another year has been assigned to the relevant year, in accordance with the production month presentation described in section 2.2 of this application. Where the transaction (or part of the transaction) relates to losses prior to 2006, it also has been assigned to the prior year. Detail on the assignment
between 2006 and other years for transactions which occurred from 2006 to 2008 is provided in Appendix E-1 of this application.

5.2 2006 Cost Adjustments After First Reconciliation

The AESO’s 2006 revenue requirement (excluding losses) was approved in AUC Order 2005-464 on the AESO’s 2005-2006 General Tariff Application Second Refiling, released on December 20, 2005, and subsequently updated to incorporate the 2006 Own Costs Update filed with the AUC on January 13, 2006. The 2006 revenue requirement is provided as column (a) in Table 5-1. Variances of recorded costs from that approved forecast were explained in the first reconciliation of the 2006 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009, with the exception of the proposed redistribution of interest discussed in section 2.3 of this application. No further discussion of those variances is provided in this application. Only 2006 cost adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

Specifically, the 2006 cost adjustments (excluding those related to losses) which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:
• relate to 2006,
• occurred after the cut-off date of March 31, 2008 for data included in the 2006 first reconciliation, and
• occurred up to December 31, 2008.

These 2006 cost adjustments, together with the original 2006-related transactions which were included in the first reconciliation, establish the 2006 production year data for deferral account reconciliation purposes in this application.

Table 5-1 includes the following information for 2006:
• column (b) contains the 2006 recorded costs included in the first reconciliation in the 2004-2007 application (including the redistribution of interest which is removed in this application as discussed in section 2.3 of this application);
• column (c) contains the 2006 recorded costs included in this application;
• column (d) provides the additional amounts attributed to 2006 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the cost variances between the first and second reconciliations; and
• column (e) provides the 2006 additional amounts from column (d) as a percentage of the recorded costs from the first reconciliation in column (b).

As already discussed in the previous sections of this application, variances arise due to a number of factors, including finalization of TFO costs through AUC decisions, variances from forecast of volumes and pool price, delays and changes in AESO schedules and priorities, and generally expected adjustments that occur over time. In the first reconciliation for 2006, in the 2004-2007 deferral account reconciliation application, the AESO considered a line
### Table 5-1 2006 First and Second Reconciliation Cost Variances (Excluding Losses), $000 000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Approved Forecast</td>
<td>1st DAR¹</td>
<td>2nd DAR¹</td>
<td>(d)=(c)-(b)</td>
</tr>
<tr>
<td>WIRES</td>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
</tr>
<tr>
<td>TFO Wires-Related Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>AltaLink</td>
<td>193.7</td>
<td>189.0</td>
<td>189.0</td>
</tr>
<tr>
<td>2</td>
<td>ATCO Electric Ltd.</td>
<td>161.2</td>
<td>166.1</td>
<td>166.1</td>
</tr>
<tr>
<td>3</td>
<td>Isolated Generation</td>
<td>(3.5)</td>
<td>(7.0)</td>
<td>(7.0)</td>
</tr>
<tr>
<td>4</td>
<td>Subtotal ATCO Costs</td>
<td>157.7</td>
<td>159.2</td>
<td>159.2</td>
</tr>
<tr>
<td>5</td>
<td>Enmax Power Corporation</td>
<td>33.6</td>
<td>31.9</td>
<td>31.9</td>
</tr>
<tr>
<td>6</td>
<td>EPCOR Transmission Inc.</td>
<td>32.8</td>
<td>36.9</td>
<td>36.9</td>
</tr>
<tr>
<td>7</td>
<td>City of Lethbridge</td>
<td>4.5</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>8</td>
<td>TransAlta</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>9</td>
<td>Refund to the AESO</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Subtotal TransAlta Costs</td>
<td>3.7</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>11</td>
<td>City of Red Deer</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>12</td>
<td>FortisAlberta Networks (Farm)</td>
<td>1.9</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>13</td>
<td>Subtotal TFO Wires-Related Costs</td>
<td>429.8</td>
<td>428.1</td>
<td>428.1</td>
</tr>
<tr>
<td>Non-Wires Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Invitation to Bid on Credits (IBOC)</td>
<td>2.0</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>15</td>
<td>Location Based Credit Standing Offer (LBC SO)</td>
<td>7.7</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>16</td>
<td>Subtotal IBOC/LBC SO Costs</td>
<td>9.7</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>17</td>
<td>TOTAL WIRES COSTS</td>
<td>439.5</td>
<td>434.3</td>
<td>434.3</td>
</tr>
<tr>
<td>ANCILLARY SERVICES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Regulating</td>
<td>24.8</td>
<td>47.1</td>
<td>47.1</td>
</tr>
<tr>
<td>19</td>
<td>Spinning</td>
<td>25.6</td>
<td>63.4</td>
<td>63.4</td>
</tr>
<tr>
<td>20</td>
<td>Supplemental</td>
<td>20.9</td>
<td>61.5</td>
<td>61.5</td>
</tr>
<tr>
<td>21</td>
<td>Subtotal Active Reserves</td>
<td>71.4</td>
<td>172.0</td>
<td>172.0</td>
</tr>
<tr>
<td>Standby</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Regulating</td>
<td>7.6</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>23</td>
<td>Spinning</td>
<td>4.3</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>24</td>
<td>Supplemental</td>
<td>2.1</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>25</td>
<td>Subtotal Standby Reserves</td>
<td>14.0</td>
<td>13.9</td>
<td>13.9</td>
</tr>
<tr>
<td>26</td>
<td>Trading Fees &amp; Other Related Charges</td>
<td>-</td>
<td>(2.9)</td>
<td>(2.9)</td>
</tr>
<tr>
<td>27</td>
<td>Subtotal Operating Reserves</td>
<td>85.3</td>
<td>183.0</td>
<td>183.0</td>
</tr>
<tr>
<td>Other Ancillary Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Generator Remedial Action Schemes (RAS)</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>29</td>
<td>Black Start</td>
<td>2.3</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>30</td>
<td>Transmission Must Run (TMR)</td>
<td>53.2</td>
<td>39.3</td>
<td>39.3</td>
</tr>
<tr>
<td>31</td>
<td>Under Frequency Mitigation</td>
<td>6.9</td>
<td>5.6</td>
<td>5.6</td>
</tr>
<tr>
<td>32</td>
<td>Subtotal Other Ancillary Services</td>
<td>62.8</td>
<td>47.3</td>
<td>47.3</td>
</tr>
</tbody>
</table>
## Table 5-1  2006 First and Second Reconciliation Cost Variances (Excluding Losses), $ 000 000

(continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Approved Forecast</th>
<th>1st DAR</th>
<th>2nd DAR</th>
<th>Variance</th>
<th>Over (Under)</th>
<th>$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(a) 2004-2007</td>
<td>(b) 2008</td>
<td>(c) 2008</td>
<td>(d)=(c)-(b)</td>
<td>(e)=(d)÷(b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Poplar Hill</td>
<td>1.9</td>
<td>2.0</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Interruptible Load Remedial Action Scheme</td>
<td>0.5</td>
<td>0.8</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Subtotal Poplar Hill/ILRAS</td>
<td>2.4</td>
<td>2.8</td>
<td>2.8</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>TOTAL ANCILLARY SERVICES</td>
<td>150.6</td>
<td>233.0</td>
<td>233.0</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>External Regulatory Costs</td>
<td>2.3</td>
<td>0.3</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Western Electricity Coordinating Council (WECC)</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Share of AUC Overhead</td>
<td>1.8</td>
<td>2.0</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Balancing Pool</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>TOTAL OTHER INDUSTRY COSTS</td>
<td>5.5</td>
<td>3.6</td>
<td>3.6</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Staff and Benefits</td>
<td>20.8</td>
<td>20.1</td>
<td>20.1</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Staff and Benefits Allocated to Capital</td>
<td>(0.9)</td>
<td>(0.7)</td>
<td>(0.7)</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>Subtotal Staff and Benefits</td>
<td>19.9</td>
<td>19.4</td>
<td>19.4</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>Consultants</td>
<td>2.1</td>
<td>2.9</td>
<td>2.9</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Board Members Fees</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Travel and Training</td>
<td>1.0</td>
<td>0.8</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Legal</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>Accounting and Tax Advice</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Rent</td>
<td>1.5</td>
<td>1.4</td>
<td>1.4</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Insurance</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Other Administrative Costs</td>
<td>1.3</td>
<td>1.5</td>
<td>1.5</td>
<td>(0.0)</td>
<td>(0.8%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Telecom and IT Maintenance</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>0.0</td>
<td>1.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>54</td>
<td>System Access Application Fees</td>
<td>-</td>
<td>(0.5)</td>
<td>(0.5)</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>55</td>
<td>Total Administrative Costs</td>
<td>28.8</td>
<td>28.5</td>
<td>28.5</td>
<td>0.0</td>
<td>0.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>56</td>
<td>Interest</td>
<td>0.5</td>
<td>1.9</td>
<td>(0.1)</td>
<td>(2.0)</td>
<td>(104.8%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>Amortization and Depreciation</td>
<td>2.9</td>
<td>3.0</td>
<td>3.0</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>Taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>59</td>
<td>Total General Costs</td>
<td>3.4</td>
<td>4.9</td>
<td>2.9</td>
<td>(2.0)</td>
<td>(40.2%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>TOTAL GENERAL &amp; ADMIN COSTS</td>
<td>32.2</td>
<td>33.4</td>
<td>31.4</td>
<td>(2.0)</td>
<td>(5.9%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>Total G&amp;A and Other Industry Costs</td>
<td>37.7</td>
<td>37.0</td>
<td>35.0</td>
<td>(2.0)</td>
<td>(5.3%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>TOTAL REVENUE REQUIREMENT</td>
<td>627.7</td>
<td>704.3</td>
<td>702.3</td>
<td>(2.0)</td>
<td>(0.3%)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 5-1 2006 First and Second Reconciliation Cost Variances (Excluding Losses), $ 000 000
(continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Approved 2004-2007</td>
<td>1st DAR ¹</td>
</tr>
<tr>
<td>CAPITAL</td>
<td>Forecast</td>
<td>1st DAR ¹</td>
</tr>
<tr>
<td>63</td>
<td>Salaries and Benefits</td>
<td>0.9</td>
</tr>
<tr>
<td>64</td>
<td>Other Capital</td>
<td>2.7</td>
</tr>
<tr>
<td>65</td>
<td>System Coordination Centre</td>
<td>11.6</td>
</tr>
<tr>
<td>66</td>
<td>Total Capital</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding.
Shaded numbers indicate significant variances which are discussed in the text.
¹ DAR means Deferral Account Reconciliation.
² Amortization of Rent Free Period not included in 2006 Recorded Costs on Line 50.

item variance to be significant when it exceeded ±$3.0 million, or, if it was smaller than ±$3.0 million, when it was both at least ±$0.3 million and at least ±10% of the approved line item amount.

In this second reconciliation for 2006, variances are represented by cost adjustments which occurred after the first reconciliation. It seems inappropriate to use the same threshold levels for variance explanations for adjustments as would be used in a first reconciliation. The AESO considers it reasonable to reduce the variance explanation thresholds by half, recognizing that costs may have varied from forecast in the first reconciliation and may also vary again due to further adjustments in this second reconciliation. Although each variance might be less than the ±$3.0 million threshold, together they may exceed it.

Therefore, in Table 5-1, the AESO considered a line item variance to be significant when it exceeded ±$1.5 million, or, if it was smaller than ±$1.5 million, when it was both at least ±$0.15 million and at least ±5% of the first reconciliation recorded costs item amount. Variances exceeding these thresholds are shaded in Table 5-1, with explanations provided by line number in the following discussion. Where variances were either less than ±$0.15 million or less than ±5% (except where such variance is ±$1.5 million or greater) explanations are not provided, as such variances are considered small enough that specific variance explanations are not required.

5.2.1 General and Administrative Costs
The 2006 second reconciliation recorded general and administrative costs were $31.4 million, which is $2.0 million (or 6%) less than the first reconciliation recorded costs of $33.4 million, due to the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application.

Line 56 Interest
Interest expense includes interest incurred by the AESO on bank debt held to provide working capital and to fund capital purchases, credit facility standby fees, and fees charged
related to the letter of credit issued as security for operating reserve procurement. The 2006 second reconciliation recorded interest expense was a credit of $0.1 million, which is $2.0 million (or 105%) less than the first reconciliation recorded expense of $1.9 million, due to the removal of the redistribution of interest.

268 In the 2006 first reconciliation, interest expense included $2.0 million reflecting the proposed recognition of interest on deferral account balances and its redistribution between production years and months. That amount has been removed in this 2006 second reconciliation in accordance with the AUC’s order in Decision 2009-010 on the AESO’s 2004-2007 deferral account reconciliation application, as discussed in section 2.3 of this application.

5.3 2006 Revenue Adjustments After First Reconciliation

269 The AESO’s 2006 forecast “base rate” revenue (excluding losses) was discussed in the 2004-2007 deferral account reconciliation application. Base rates exclude Deferral Account Adjustment Rider C, which collects or refunds revenue during the year to align actual revenue with actual costs by rate and rate component (excluding losses). The AESO does not forecast Rider C amounts as part of its tariff applications, and Rider C is therefore not included in this discussion of variances from forecast. Base rate revenue also excludes any amounts collected or refunded through deferral account reconciliation applications.

270 Variances of recorded base rate revenue from the 2006 forecast were explained in the first reconciliation of the 2006 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009. No further discussion of those base rate revenue variances is provided in this application. Only revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

271 Specifically, the 2006 revenue adjustments (excluding those related to losses) which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:

• relate to 2006,
• occurred after the cut-off date of March 31, 2008 for data included in the 2006 first reconciliation, and
• occurred up to December 31, 2008.

272 These 2006 revenue adjustments, together with the original 2006-related transactions which were included in the first reconciliation, establish the 2006 production year revenue data for deferral account reconciliation purposes in this application.

273 Table 5-2 accordingly includes the following information for 2006:

• column (b) contains the 2006 recorded base rate revenue included in the first reconciliation in the 2004-2007 application;
• column (c) contains the 2006 recorded base rate revenue included in this application;
Table 5-2  2006 First and Second Reconciliation Revenue Variances (Excluding Losses), $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>2004-2007 Revenue</th>
<th>1st DAR ¹</th>
<th>2nd DAR ¹</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Forecast</td>
<td></td>
<td></td>
<td>$ (d)÷(b) (e)=(d)÷(b)</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$478.8</td>
<td>$467.0</td>
<td>$467.0</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>88.1</td>
<td>173.4</td>
<td>173.5</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>3</td>
<td>Voltage Control</td>
<td>53.2</td>
<td>52.3</td>
<td>52.3</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>4</td>
<td>Other System Support</td>
<td>8.7</td>
<td>7.9</td>
<td>7.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Total DTS</td>
<td>$628.8</td>
<td>$700.6</td>
<td>$700.6</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.

- column (d) provides the additional base rate revenue amounts attributed to 2006 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the revenue variances between the first and second reconciliations; and
- column (e) provides the 2006 additional revenue amounts from column (d) as a percentage of the recorded revenue from the first reconciliation in column (b).

The 2006 second reconciliation recorded revenue (excluding revenue related to losses) was $700.6 million, which is the same as the first reconciliation recorded revenue.

On an annual basis, transmission revenue depends on approved transmission tariff rates, pool price, and billed volumes of demand and energy. Revenue variances after the first reconciliation generally arise due to billing adjustments, primarily reflecting changes to metered volumes such as those that occur in post-final adjustments. There were no significant variances between the first and second reconciliation recorded revenues for 2006.

5.4  2006 Second Reconciliation Deferral Account Balance

Costs and revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2006 second reconciliation are summarized in Table 5-3, and reflect the 2006 second reconciliation costs and revenues provided in Table 5-1 and 5-2 respectively.

As noted in section 1.1 of this application, the AESO’s tariff includes the use of deferral accounts, which were incorporated in the AESO’s 2006 tariff through Working Capital Deficiency/Surplus Rider B and Deferral Account Adjustment Rider C. The AESO did not invoke Rider B during 2006, but determined Rider C charges and refunds in accordance with the rider’s approved purpose to “restore deferral account balances to zero over the following calendar quarter”. The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of that quarter and forecast billing volumes for that
### Table 5-3 2006 Second Reconciliation Deferral Account Summary (Excluding Losses), $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Recorded Revenue (a)</th>
<th>Recorded Costs (b)</th>
<th>Over (Under) (c)=(a)+(b)</th>
<th>Prior Deferral Account Collections (Refunds) (d)</th>
<th>Rider C (e)</th>
<th>1st DAR (^1) (f)=Σ(c):(e)</th>
<th>Net Over (Under) (g)=-(f)÷(b)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$467.0</td>
<td>($470.1)</td>
<td>($3.2)</td>
<td>$14.5</td>
<td>($10.4)</td>
<td>$0.9</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>173.5</td>
<td>(185.3)</td>
<td>(11.9)</td>
<td>13.3</td>
<td>0.6</td>
<td>1.9</td>
<td>1.1%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Voltage Control</td>
<td>52.3</td>
<td>(39.3)</td>
<td>13.0</td>
<td>(12.4)</td>
<td>(0.5)</td>
<td>0.0</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Other System Support</td>
<td>7.9</td>
<td>(7.6)</td>
<td>0.4</td>
<td>(0.3)</td>
<td>(1.0)</td>
<td>(0.9)</td>
<td>(11.7%)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Total DTS</td>
<td>$700.6</td>
<td>($702.3)</td>
<td>($1.7)</td>
<td>$15.1</td>
<td>($11.3)</td>
<td>$2.0</td>
<td>0.3%</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding.

\(^1\) DAR means Deferral Account Reconciliation.

The first reconciliation of the 2006 deferral account in the AESO’s 2004-2007 deferral account reconciliation application resulted in an $11.3 million surplus attributed to 2006, as illustrated in Table 2-6 in section 2.4 of this application. The first reconciliation surplus was refunded to customers in the interim settlement in late July 2008 of the AESO’s 2004-2007 deferral account balances approved in AUC Order U2008-253. First reconciliation interim settlement amounts attributed to 2006 are provided in column (e) of Table 5-3, and restored all 2006 deferral account balances to zero based on the transactions included in the 2006 first reconciliation.

However, this second reconciliation includes adjustment to costs and revenues that occurred after the first reconciliation of the 2006 deferral account, as discussed in sections 5.2 and 5.3 where explanations were provided when the resulting line item variances were significant.

A significant variance resulted from the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application. As explained in section 2.3 of this application, the removal of the interest redistribution affects the different rate component deferral accounts to varying degrees. For 2006, the removal of the interest redistribution affects the interconnection charge, operating reserve charge, and other system support charge deferral accounts.

The interconnection charge deferral account balance has decreased to an overcollection of $0.9 million (or 0.2% of recorded costs) due to the removal of the redistribution of interest discussed in section 5.2.1.

The operating reserve charge deferral account balance has decreased to an overcollection of $1.9 million (or 1% of recorded costs) due to the removal of the redistribution of interest discussed in section 5.2.1.
The other system support charge deferral account balance has increased to an undercollection of $0.9 million (or 12% of recorded costs) due to the removal of the redistribution of interest discussed in section 5.2.1.

The deferral account balance for voltage control charge has not changed significantly from the first reconciliation.

The impact of all 2006 cost and revenue adjustments is a deferral account net balance decrease to an overcollection of $2.0 million (or 0.3% of recorded costs), compared to the zero balance that existed after interim settlement of amounts included in the first reconciliation.

Additional details on 2006 recorded costs and revenues are provided in Appendices B through G of this application. The allocation of the 2006 net deferral account balances to customers is discussed in section 10 of this application.
6 2005 FINANCIAL RESULTS AND DEFERRAL ACCOUNT BALANCE

The AESO’s 2005 costs and revenues which are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, losses, and the AESO’s own administration (which includes other industry costs and general and administrative costs).

6.1 2005 Deferral Account Second Reconciliation

The AESO filed a first reconciliation of its 2005 deferral accounts as part of its 2004-2007 deferral account reconciliation application submitted to the AUC on June 2, 2008. That first reconciliation included all cost and revenue transactions that occurred from January 1, 2005, to March 31, 2008 and that related to 2005. The first reconciliation deferral account balance for 2005 was a shortfall of $0.9 million (including the AESO’s proposed redistribution of interest) as provided in Table 2-6 in this application. The first reconciliation balance was settled with customers in July 2008 in accordance with the interim approval of the AESO’s 2004-2007 deferral account reconciliation application in AUC Order U2008-253, released on July 17, 2008.

The first reconciliation resulted in $851.4 million in costs and $851.4 million in customer revenues (including Rider C collections and refunds as well as interim settlement collections and refunds) being attributed to 2005.

In this 2008 deferral account reconciliation application, the second reconciliation for 2005 includes all cost and revenue transactions that relate to 2005 and that occurred from January 1, 2005 to December 31, 2008. These transactions establish the 2005 production month data for second reconciliation purposes in this application. Compared to the first reconciliation, this second reconciliation includes additional transactions that relate to 2005 and that occurred after March 31, 2008 up to December 31, 2008.

The inclusion of these additional transactions decreases the 2005 recorded costs to $850.1 million and increases the 2005 recorded revenue slightly to $851.5 million.

Revenue and cost transactions that occurred from January 1, 2005, to December 31, 2008 may also relate, in whole or in part, to years other than 2005. In such instances, the transaction (or part of the transaction) which relates to another year has been assigned to the relevant year, in accordance with the production month presentation described in section 2.2 of this application. Detail on the assignment between 2005 and other years for transactions which occurred from 2005 to 2008 is provided in Appendix E-1 of this application.

The AESO also notes that, as discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation, and were therefore not included in sections 3, 4, and 5 of this application relating to 2008, 2007, and 2006 respectively. However, transmission system losses were subject to retrospective deferral account reconciliation in 2005 and prior years, and are therefore included in this section relating to 2005.
6.2 2005 Cost Adjustments After First Reconciliation

The AESO’s 2005 revenue requirement was approved in AUC Order 2005-464 on the AESO’s 2005-2006 General Tariff Application Second Refiling, released on December 20, 2005, and is provided as column (a) in Table 6-1. Variances of recorded costs from that approved forecast were explained in the first reconciliation of the 2005 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009, with the exception of the proposed redistribution of interest discussed in section 2.3 of this application. No further discussion of those variances is provided in this application. Only 2005 cost adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

Specifically, the 2005 cost adjustments which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:
- relate to 2005,
- occurred after the cut-off date of March 31, 2008 for data included in the 2005 first reconciliation, and
- occurred up to December 31, 2008.

These 2005 cost adjustments, together with the original 2005-related transactions which were included in the first reconciliation, establish the 2005 production year cost data for deferral account reconciliation purposes in this application.

Table 6-1 includes the following information for 2005:
- column (b) contains the 2005 recorded costs included in the first reconciliation in the 2004-2007 application (including the redistribution of interest which is removed in this application as discussed in section 2.3 of this application);
- column (c) contains the 2005 recorded costs included in this application;
- column (d) provides the additional amounts attributed to 2005 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the cost variances between the first and second reconciliations; and
- column (e) provides the 2005 additional amounts from column (d) as a percentage of the recorded costs from the first reconciliation in column (b).

As already discussed in the previous sections of this application, variances arise due to a number of factors, including finalization of TFO costs through AUC decisions, variances from forecast of volumes and pool price, delays and changes in AESO schedules and priorities, and generally expected adjustments that occur over time. In the first reconciliation for 2005, in the 2004-2007 deferral account reconciliation application, the AESO considered a line item variance to be significant when it exceeded ±$3.0 million, or, if it was smaller than ±$3.0 million, when it was both at least ±$0.3 million and at least ±10% of the approved line item amount.
### Table 6-1 2005 First and Second Reconciliation Cost Variances, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Approved Forecast (a)</th>
<th>1st DAR ¹ (b)</th>
<th>2nd DAR ¹ (c)</th>
<th>Variance (d)=(c)-(b)</th>
<th>% (e)=(d)÷(b)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WIRES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>AltaLink</td>
<td>181.5</td>
<td>182.1</td>
<td>182.1</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>ATCO Electric Ltd.</td>
<td>161.2</td>
<td>163.7</td>
<td>163.7</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Isolated Generation</td>
<td>(5.5)</td>
<td>(5.9)</td>
<td>(5.9)</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Subtotal ATCO Costs</td>
<td>155.7</td>
<td>157.8</td>
<td>157.8</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Enmax Power Corporation</td>
<td>33.6</td>
<td>34.1</td>
<td>34.1</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>EPCOR Transmission Inc.</td>
<td>35.2</td>
<td>37.1</td>
<td>37.1</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>City of Lethbridge</td>
<td>4.5</td>
<td>4.5</td>
<td>4.5</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>TransAlta</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Refund to the AESO</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>10</td>
<td>Subtotal TransAlta Costs</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>City of Red Deer</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>FortisAlberta Networks (Farm)</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Subtotal TFO Wires-Related Costs</td>
<td>417.8</td>
<td>422.8</td>
<td>422.8</td>
<td>-</td>
</tr>
<tr>
<td><strong>Non-Wires Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Invitation to Bid on Credits (IBOC)</td>
<td>1.9</td>
<td>1.7</td>
<td>1.7</td>
<td>-</td>
</tr>
<tr>
<td>15</td>
<td>Location Based Credit Standing Offer (LBC SO)</td>
<td>7.5</td>
<td>4.1</td>
<td>4.1</td>
<td>-</td>
</tr>
<tr>
<td>16</td>
<td>Subtotal IBOC/LBC SO Costs</td>
<td>9.4</td>
<td>5.9</td>
<td>5.9</td>
<td>-</td>
</tr>
<tr>
<td>17</td>
<td>TOTAL WIRES COSTS</td>
<td>427.2</td>
<td>428.7</td>
<td>428.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>ANCILLARY SERVICES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Reserves</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Regulating</td>
<td>27.0</td>
<td>38.6</td>
<td>38.6</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>Spinning</td>
<td>29.2</td>
<td>44.1</td>
<td>44.1</td>
<td>-</td>
</tr>
<tr>
<td>20</td>
<td>Supplemental</td>
<td>15.1</td>
<td>30.9</td>
<td>30.9</td>
<td>-</td>
</tr>
<tr>
<td>21</td>
<td>Subtotal Active Reserves</td>
<td>71.3</td>
<td>113.5</td>
<td>113.5</td>
<td>-</td>
</tr>
<tr>
<td><strong>Standby</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Regulating</td>
<td>4.2</td>
<td>3.6</td>
<td>3.6</td>
<td>-</td>
</tr>
<tr>
<td>23</td>
<td>Spinning</td>
<td>7.0</td>
<td>5.2</td>
<td>5.2</td>
<td>-</td>
</tr>
<tr>
<td>24</td>
<td>Supplemental</td>
<td>1.9</td>
<td>2.2</td>
<td>2.2</td>
<td>-</td>
</tr>
<tr>
<td>25</td>
<td>Subtotal Standby Reserves</td>
<td>13.1</td>
<td>10.9</td>
<td>10.9</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>Trading Fees &amp; Other Related Charges</td>
<td>-</td>
<td>(2.2)</td>
<td>(2.2)</td>
<td>-</td>
</tr>
<tr>
<td>27</td>
<td>Subtotal Operating Reserves</td>
<td>84.4</td>
<td>122.2</td>
<td>122.2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other Ancillary Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Generator Remedial Action Schemes (RAS)</td>
<td>0.4</td>
<td>0.5</td>
<td>0.5</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
<td>Black Start</td>
<td>2.3</td>
<td>1.6</td>
<td>1.6</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>Transmission Must Run (TMR)</td>
<td>41.4</td>
<td>56.2</td>
<td>56.2</td>
<td>-</td>
</tr>
<tr>
<td>31</td>
<td>Under Frequency Mitigation</td>
<td>6.5</td>
<td>6.3</td>
<td>6.3</td>
<td>-</td>
</tr>
<tr>
<td>32</td>
<td>Subtotal Other Ancillary Services</td>
<td>50.6</td>
<td>64.6</td>
<td>64.6</td>
<td>-</td>
</tr>
</tbody>
</table>
### Table 6-1 2005 First and Second Reconciliation Cost Variances, $ 000 000 (continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Location</th>
<th>Line Description</th>
<th>Approved Forecast</th>
<th>1st DAR</th>
<th>2nd DAR</th>
<th>Over (Under)</th>
<th>Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>Poplar Hill/ILRAS</td>
<td>Poplar Hill</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td></td>
<td>Interruptible Load Remedial Action Scheme</td>
<td>0.8</td>
<td>0.9</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td></td>
<td><strong>Subtotal Poplar Hill/ILRAS</strong></td>
<td>2.7</td>
<td>2.8</td>
<td>2.8</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td></td>
<td><strong>TOTAL ANCILLARY SERVICES</strong></td>
<td>137.7</td>
<td>189.7</td>
<td>189.7</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>LOSSES</td>
<td>Pool Payment</td>
<td>181.0</td>
<td>196.1</td>
<td>196.1</td>
<td>(0.0)</td>
<td>(0.0%)</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td></td>
<td>Prior Year Losses Adjustments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td></td>
<td>One-time Settlement Data Adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td></td>
<td><strong>TOTAL LOSSES COSTS</strong></td>
<td>181.0</td>
<td>196.1</td>
<td>196.1</td>
<td>(0.0)</td>
<td>(0.0%)</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>OTHER INDUSTRY COSTS</td>
<td>External Regulatory Costs</td>
<td>5.0</td>
<td>2.7</td>
<td>2.7</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td></td>
<td>Western Electricity Coordinating Council (WECC)</td>
<td>1.0</td>
<td>0.8</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td></td>
<td>Share of AUC Overhead</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td></td>
<td>Balancing Pool</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td></td>
<td><strong>TOTAL OTHER INDUSTRY COSTS</strong></td>
<td>7.8</td>
<td>5.3</td>
<td>5.3</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>GENERAL AND ADMINISTRATIVE COSTS</td>
<td>Administrative Costs</td>
<td>19.2</td>
<td>19.7</td>
<td>19.7</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td></td>
<td>Consultants</td>
<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td></td>
<td>Board Members Fees</td>
<td>0.3</td>
<td>0.4</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td></td>
<td>Travel and Training</td>
<td>1.0</td>
<td>0.8</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td></td>
<td>Legal</td>
<td>0.4</td>
<td>0.6</td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td></td>
<td>Accounting and Tax Advice</td>
<td>0.3</td>
<td>0.2</td>
<td>0.2</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td></td>
<td>Rent</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td></td>
<td>Insurance</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>54</td>
<td></td>
<td>Other Administrative Costs</td>
<td>2.6</td>
<td>2.4</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>55</td>
<td></td>
<td>Interconnection Fees (Offset)</td>
<td>(0.9)</td>
<td>(0.6)</td>
<td>(0.6)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>56</td>
<td></td>
<td><strong>Total Administrative Costs</strong></td>
<td>27.2</td>
<td>27.7</td>
<td>27.7</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
In this second reconciliation for 2005, variances are represented by cost adjustments which occurred after the first reconciliation. It seems inappropriate to use the same threshold levels for variance explanations for adjustments as would be used in a first reconciliation. The AESO considers it reasonable to reduce the variance explanation thresholds by half, recognizing that costs may have varied from forecast in the first reconciliation and may also vary again due to further adjustments in this second reconciliation. Although each variance might be less than the ±$3.0 million threshold, together they may exceed it.

Therefore, in Table 6-1, the AESO considered a line item variance to be significant when it exceeded ±$1.5 million, or, if it was smaller than ±$1.5 million, when it was both at least ±$0.15 million and at least ±5% of the first reconciliation recorded costs line item amount. Variances exceeding these thresholds are shaded in Table 6-1, with explanations provided by line number in the following discussion. Where variances were either less than ±$0.15 million or less than ±5% (except where such variance is ±$1.5 million or greater) explanations are not provided, as such variances are considered small enough that specific variance explanations are not required.

### 6.2.1 General and Administrative Costs

The 2005 second reconciliation recorded general and administrative costs were $30.3 million, which is $1.3 million (or 4%) less than the first reconciliation recorded costs of $31.6 million, due to the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application.

<table>
<thead>
<tr>
<th>Line No.</th>
<th>General Costs</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Line Item</td>
<td>Approved Forecast</td>
<td>2004-2007</td>
</tr>
<tr>
<td>57</td>
<td>Interest</td>
<td>(a)</td>
<td>(b)</td>
</tr>
<tr>
<td>58</td>
<td>Amortization and Depreciation</td>
<td>1.7</td>
<td>2.3</td>
</tr>
<tr>
<td>59</td>
<td>Taxes</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>60</td>
<td>Total General Costs</td>
<td>2.0</td>
<td>3.9</td>
</tr>
<tr>
<td>61</td>
<td>TOTAL GENERAL &amp; ADMIN COSTS</td>
<td>29.2</td>
<td>31.6</td>
</tr>
<tr>
<td>62</td>
<td>Total G&amp;A and Other Industry Costs</td>
<td>37.0</td>
<td>36.9</td>
</tr>
<tr>
<td>63</td>
<td>TOTAL REVENUE REQUIREMENT</td>
<td>782.9</td>
<td>851.4</td>
</tr>
<tr>
<td>64</td>
<td>CAPITAL</td>
<td>4.5</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding. Shaded numbers indicate significant variances which are discussed in the text. ¹ DAR means Deferral Account Reconciliation. ² Amortization of Rent Free Period not included in 2005 Recorded Costs on Line 52.
Line 57 Interest

Interest expense includes interest incurred by the AESO on bank debt held to provide working capital and to fund capital purchases, credit facility standby fees, and fees charged related to the letter of credit issued as security for operating reserve procurement. The 2005 second reconciliation recorded interest expense was $0.4 million, which is $1.3 million (or 77%) less than the first reconciliation recorded expense of $1.6 million, due to the removal of the redistribution of interest.

In the 2005 first reconciliation, interest expense included $1.3 million reflecting the proposed recognition of interest on deferral account balances and its redistribution between production years and months. That amount has been removed in this 2005 second reconciliation in accordance with the AUC’s order in Decision 2009-010 on the AESO’s 2004-2007 deferral account reconciliation application, as discussed in section 2.3 of this application.

6.3 2005 Revenue Adjustments After First Reconciliation

The AESO’s 2005 forecast “base rate” revenue was discussed in the 2004-2007 deferral account reconciliation application. Base rates exclude Deferral Account Adjustment Rider C, which collects or refunds revenue during the year to align actual revenue with actual costs by rate and rate component. The AESO does not forecast Rider C amounts as part of its tariff applications, and Rider C is therefore not included in this discussion of variances from forecast. Base rate revenue also excludes any amounts collected or refunded through deferral account reconciliation applications.

Variances of recorded base rate revenue from the 2005 forecast were explained in the first reconciliation of the 2005 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009. No further discussion of those base rate revenue variances is provided in this application. Only revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

Specifically, the 2005 revenue adjustments which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:

- relate to 2005,
- occurred after the cut-off date of March 31, 2008 for data included in the 2005 first reconciliation, and
- occurred up to December 31, 2008.

These 2005 revenue adjustments, together with the original 2005-related transactions which were included in the first reconciliation, establish the 2005 production year revenue data for deferral account reconciliation purposes in this application.
308 Table 6-2 accordingly includes the following information for 2005:
- column (b) contains the 2005 recorded base rate revenue included in the first reconciliation in the 2004-2007 application;
- column (c) contains the 2005 recorded base rate revenue included in this application;
- column (d) provides the additional base rate revenue amounts attributed to 2005 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the revenue variances between the first and second reconciliations; and
- column (e) provides the 2005 additional revenue amounts from column (d) as a percentage of the recorded revenue from the first reconciliation in column (b).

309 The 2005 second reconciliation recorded base rate revenue was $831.9 million, which is $0.1 million (or 0.01%) more than the first reconciliation recorded revenue of $831.8 million.

310 On an annual basis, transmission revenue depends on approved transmission tariff rates, pool price, and billed volumes of demand and energy. Revenue variances after the first reconciliation generally arise due to billing adjustments, primarily reflecting changes to metered volumes such as those that occur in post-final adjustments. There were no significant variances between the first and second reconciliation recorded revenues for 2005.

Table 6-2  2005 First and Second Reconciliation Revenue Variances, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Supply Transmission Service</th>
<th>Total DTS and STS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Forecast Revenue (a)</td>
<td>Recorded Revenue</td>
<td>Variance Over (Under)</td>
</tr>
<tr>
<td></td>
<td>2004-2007</td>
<td>1st DAR ¹</td>
<td>2nd DAR ¹</td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$257.6</td>
<td>$258.6</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>92.9</td>
<td>110.7</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>4</td>
<td>Total DTS</td>
<td>$353.0</td>
<td>$371.7</td>
</tr>
<tr>
<td>5</td>
<td>Interconnection</td>
<td>$178.5</td>
<td>$172.8</td>
</tr>
<tr>
<td>6</td>
<td>Losses</td>
<td>185.5</td>
<td>180.7</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve</td>
<td>94.8</td>
<td>106.5</td>
</tr>
<tr>
<td>8</td>
<td>Total STS</td>
<td>$458.8</td>
<td>$460.1</td>
</tr>
<tr>
<td>9</td>
<td>Interconnection</td>
<td>$436.0</td>
<td>$431.4</td>
</tr>
<tr>
<td>10</td>
<td>Losses</td>
<td>185.5</td>
<td>180.7</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve</td>
<td>187.7</td>
<td>217.2</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support</td>
<td>2.5</td>
<td>2.4</td>
</tr>
<tr>
<td>13</td>
<td>Total DTS and STS</td>
<td>$811.8</td>
<td>$831.8</td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.
6.4 2005 Second Reconciliation Deferral Account Balance

Costs and revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2005 second reconciliation are summarized in Table 6-3, and reflect the 2005 second reconciliation costs and revenues provided in Table 6-1 and 6-2 respectively.

As noted in section 1.1 of this application, the AESO’s tariff includes the use of deferral accounts, which were incorporated in the AESO’s 2005 tariff through Working Capital Deficiency/Surplus Rider B and Deferral Account Adjustment Rider C. The AESO did not invoke Rider B during 2005, but determined Rider C charges and refunds in accordance with the rider’s approved purpose to “restore deferral account balances to zero over the following calendar quarter”. The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of that quarter and forecast billing volumes for that quarter. Rider C charges and refunds attributed to 2005 are provided in column (d) of Table 6-3.

The first reconciliation of the 2005 deferral account in the AESO's 2004-2007 deferral account reconciliation application resulted in a $0.9 million shortfall attributed to 2005, as illustrated in Table 2-6 in section 2.4 of this application. The first reconciliation shortfall was

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Recorded Base Rate Revenue</th>
<th>Recorded Costs</th>
<th>Over (Under) Prior Deferral Account Collections (Refunds)</th>
<th>Net Over (Under) Collection Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Costs</td>
<td>Collection</td>
<td>Rider C (d)</td>
<td>1st DAR (e)</td>
</tr>
<tr>
<td>Demand Transmission Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$258.7</td>
<td>($269.7)</td>
<td>(11.0)</td>
<td>$6.0</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>110.7</td>
<td>(93.4)</td>
<td>17.3</td>
<td>(15.9)</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support</td>
<td>2.4</td>
<td>(2.5)</td>
<td>(0.1)</td>
<td>0.6</td>
</tr>
<tr>
<td>4</td>
<td>Total DTS</td>
<td>$371.8</td>
<td>$6.2</td>
<td>(9.2)</td>
<td>$3.7</td>
</tr>
<tr>
<td>Supply Transmission Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Interconnection</td>
<td>$172.8</td>
<td>($195.0)</td>
<td>(22.2)</td>
<td>$17.8</td>
</tr>
<tr>
<td>6</td>
<td>Losses</td>
<td>180.7</td>
<td>(196.1)</td>
<td>(15.4)</td>
<td>22.8</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve</td>
<td>106.5</td>
<td>(93.4)</td>
<td>13.1</td>
<td>(12.7)</td>
</tr>
<tr>
<td>8</td>
<td>Total STS</td>
<td>$460.1</td>
<td>($484.6)</td>
<td>($24.4)</td>
<td>$27.9</td>
</tr>
<tr>
<td>Total DTS and STS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Interconnection</td>
<td>$431.5</td>
<td>($464.7)</td>
<td>($32.2)</td>
<td>$23.9</td>
</tr>
<tr>
<td>10</td>
<td>Losses</td>
<td>180.7</td>
<td>(196.1)</td>
<td>(15.4)</td>
<td>22.8</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve</td>
<td>217.3</td>
<td>(186.9)</td>
<td>30.4</td>
<td>(28.6)</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support</td>
<td>2.4</td>
<td>(2.5)</td>
<td>(0.1)</td>
<td>0.6</td>
</tr>
<tr>
<td>13</td>
<td>Total DTS and STS</td>
<td>$831.9</td>
<td>($850.1)</td>
<td>($18.2)</td>
<td>$18.7</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.
collected from customers in the interim settlement in late July 2008 of the AESO’s 2004-2007 deferral account balances approved in AUC Order U2008-253. First reconciliation interim settlement amounts attributed to 2005 are provided in column (e) of Table 6-3, and restored all 2005 deferral account balances to zero based on the transactions included in the 2005 first reconciliation.

314 However, this second reconciliation includes adjustments to costs and revenues that occurred after the first reconciliation of the 2005 deferral account, as discussed in sections 6.2 and 6.3 where explanations were provided when the resulting line item variances were significant.

315 A significant variance resulted from the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application. As explained in section 2.3 of this application, the removal of the interest redistribution affects the different rate component deferral accounts to varying degrees. For 2005, the removal of the interest redistribution primarily affects the interconnection charge and losses charge deferral accounts.

316 The interconnection charge deferral account balance has decreased to an overcollection of $1.2 million (or 0.2% of recorded costs) due to the removal of the redistribution of interest discussed in section 6.2.1.

317 The losses charge deferral account balance has decreased to an overcollection of $0.2 million (or 0.1% of recorded costs) due to the removal of the redistribution of interest discussed in section 6.2.1.

318 The deferral account balances for operating reserve and other system support charges have not changed significantly from the first reconciliation.

319 The impact of all 2005 cost and revenue adjustments is a deferral account net balance decrease to an overcollection of $1.4 million (or 0.2% of recorded costs), compared to the zero balance that existed after interim settlement of amounts included in the first reconciliation.

320 Additional details on 2005 recorded costs and revenues are provided in Appendices B through G of this application. The allocation of the 2005 net deferral account balances to customers is discussed in section 10 of this application.
7 2004 FINANCIAL RESULTS AND DEFERRAL ACCOUNT BALANCE

321 The AESO’s 2004 costs and revenues which are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, losses, and the AESO’s own administration (which includes other industry costs and general and administrative costs).

7.1 2004 Deferral Account Second Reconciliation

322 The AESO filed a first reconciliation of its 2004 deferral accounts as part of its 2004-2007 deferral account reconciliation application submitted to the AUC on June 2, 2008. That first reconciliation included all cost and revenue transactions that occurred from January 1, 2004, to March 31, 2008 and that related to 2004. The first reconciliation deferral account balance for 2004 was a shortfall of $5.3 million (including the AESO’s proposed redistribution of interest) as provided in Table 2-6 in this application. The first reconciliation balance was settled with customers in July 2008 in accordance with the interim approval of the AESO’s 2004-2007 deferral account reconciliation application in AUC Order U2008-253, released on July 17, 2008.

323 The first reconciliation resulted in $691.1 million in costs and $691.1 million in customer revenues (including Rider C collections and refunds as well as interim settlement collections and refunds) being attributed to 2004.

324 In this 2008 deferral account reconciliation application, the second reconciliation for 2004 includes all cost and revenue transactions that relate to 2004 and that occurred from January 1, 2004 to December 31, 2008. These transactions establish the 2004 production month data for second reconciliation purposes in this application. Compared to the first reconciliation, this second reconciliation includes additional transactions that relate to 2004 and that occurred after March 31, 2008 up to December 31, 2008.

325 The inclusion of these additional transactions decreases the 2004 recorded costs to $691.0 million. The 2004 recorded revenue remained unchanged at $691.1 million.

326 Revenue and cost transactions that occurred from January 1, 2004, to December 31, 2008 may also relate, in whole or in part, to years other than 2004. In such instances, the transaction (or part of the transaction) which relates to another year has been assigned to the relevant year, in accordance with the production month presentation described in section 2.2 of this application. Detail on the assignment between 2004 and other years for transactions which occurred from 2004 to 2008 is provided in Appendix E-1 of this application.

327 The AESO also notes that, as discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation, and were therefore not included in sections 3, 4, and 5 of this application relating to 2008, 2007, and 2006 respectively. However, transmission system losses were subject to retrospective deferral account reconciliation in 2005 and prior years, and are therefore included in this section relating to 2004.
7.2 2004 Cost Adjustments After First Reconciliation

328 The AESO’s 2004 revenue requirement is provided as column (a) in Table 7-1, and was approved in:
- AUC Decision 2005-005 on the AESO’s 2004 General Tariff Application Phase I application for 2004 other costs, released on January 31, 2005; and

329 Variances of recorded costs from that approved forecast were explained in the first reconciliation of the 2004 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009, with the exception of the proposed redistribution of interest discussed in section 2.3 of this application. No further discussion of those variances is provided in this application. Only 2004 cost adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

330 Specifically, the 2004 cost adjustments which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:
- relate to 2004,
- occurred after the cut-off date of March 31, 2008 for data included in the 2004 first reconciliation, and
- occurred up to December 31, 2008.

331 These 2004 cost adjustments, together with the original 2004-related transactions which were included in the first reconciliation, establish the 2004 production year cost data for deferral account reconciliation purposes in this application.

332 Table 7-1 includes the following information for 2004:
- column (b) contains the 2004 recorded costs included in the first reconciliation in the 2004-2007 application (including the redistribution of interest which is removed in this application as discussed in section 2.3 of this application);
- column (c) contains the 2004 recorded costs included in this application;
- column (d) provides the additional amounts attributed to 2004 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the cost variances between the first and second reconciliations; and
- column (e) provides the 2004 additional amounts from column (d) as a percentage of the recorded costs from the first reconciliation in column (b).

333 As already discussed in the previous sections of this application, variances arise due to a number of factors, including finalization of TFO costs through AUC decisions, variances from forecast of volumes and pool price, delays and changes in AESO schedules and priorities,
### Table 7-1  2004 First and Second Reconciliation Cost Variances, $ 000 000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
</tr>
<tr>
<td>WIRES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TFO’s Wires-Related Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>AltaLink</td>
<td>160.3</td>
<td>157.5</td>
<td>157.5</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>ATCO Electric Ltd.</td>
<td>170.0</td>
<td>152.4</td>
<td>152.4</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Isolated Generation</td>
<td>(5.1)</td>
<td>(4.8)</td>
<td>(4.8)</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Subtotal ATCO Costs</td>
<td>164.9</td>
<td>147.6</td>
<td>147.6</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Enmax Power Corporation</td>
<td>33.4</td>
<td>33.2</td>
<td>33.2</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>EPCOR Transmission Inc.</td>
<td>30.6</td>
<td>32.8</td>
<td>32.8</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>City of Lethbridge</td>
<td>4.4</td>
<td>4.5</td>
<td>4.5</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>TransAlta</td>
<td>2.3</td>
<td>3.4</td>
<td>3.4</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Refund to the AESO</td>
<td>(9.9)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Subtotal TransAlta Costs</td>
<td>(7.6)</td>
<td>3.4</td>
<td>3.4</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>City of Red Deer</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>FortisAlberta Networks (Farm)</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Subtotal TFO Wires-Related Costs</td>
<td>389.7</td>
<td>382.7</td>
<td>382.7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Non-Wires Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Invitation to Bid on Credits (IBOC)</td>
<td>3.2</td>
<td>2.1</td>
<td>2.1</td>
<td>-</td>
</tr>
<tr>
<td>15</td>
<td>Location Based Credit Standing Offer (LBC SO)</td>
<td>6.4</td>
<td>5.7</td>
<td>5.7</td>
<td>-</td>
</tr>
<tr>
<td>16</td>
<td>Subtotal IBOC/LBC SO Costs</td>
<td>9.6</td>
<td>7.8</td>
<td>7.8</td>
<td>-</td>
</tr>
<tr>
<td>17</td>
<td>TOTAL WIRES COSTS</td>
<td>399.3</td>
<td>390.5</td>
<td>390.5</td>
<td>-</td>
</tr>
<tr>
<td><strong>ANCILLARY SERVICES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Reserves</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Regulating</td>
<td>36.4</td>
<td>25.1</td>
<td>25.1</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>Spinning</td>
<td>38.8</td>
<td>25.7</td>
<td>25.7</td>
<td>-</td>
</tr>
<tr>
<td>20</td>
<td>Supplemental</td>
<td>8.5</td>
<td>11.1</td>
<td>11.1</td>
<td>-</td>
</tr>
<tr>
<td>21</td>
<td>Subtotal Active Reserves</td>
<td>83.7</td>
<td>61.9</td>
<td>61.9</td>
<td>-</td>
</tr>
<tr>
<td><strong>Standby</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Regulating</td>
<td>8.4</td>
<td>2.8</td>
<td>2.8</td>
<td>-</td>
</tr>
<tr>
<td>23</td>
<td>Spinning</td>
<td>10.2</td>
<td>4.4</td>
<td>4.4</td>
<td>-</td>
</tr>
<tr>
<td>24</td>
<td>Supplemental</td>
<td>2.7</td>
<td>1.3</td>
<td>1.3</td>
<td>-</td>
</tr>
<tr>
<td>25</td>
<td>Subtotal Standby Reserves</td>
<td>21.3</td>
<td>8.5</td>
<td>8.5</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>Trading Fees &amp; Other Related Charges</td>
<td>-</td>
<td>(1.2)</td>
<td>(1.2)</td>
<td>-</td>
</tr>
<tr>
<td>27</td>
<td>Subtotal Operating Reserves</td>
<td>105.0</td>
<td>69.2</td>
<td>69.2</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other Ancillary Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Generator Remedial Action Schemes (RAS)</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
<td>Black Start</td>
<td>2.2</td>
<td>1.0</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>Transmission Must Run (TMR)</td>
<td>49.3</td>
<td>43.9</td>
<td>43.9</td>
<td>-</td>
</tr>
<tr>
<td>31</td>
<td>Under Frequency Mitigation</td>
<td>6.5</td>
<td>6.9</td>
<td>6.9</td>
<td>-</td>
</tr>
<tr>
<td>32</td>
<td>Hydro Motoring</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>33</td>
<td>Subtotal Other Ancillary Services</td>
<td>58.4</td>
<td>52.2</td>
<td>52.2</td>
<td>-</td>
</tr>
</tbody>
</table>
Table 7-1  2004 First and Second Reconciliation Cost Variances, $ 000 000 (continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Approved Forecast</th>
<th>2004-2007</th>
<th>1st DAR ¹</th>
<th>2nd DAR ¹</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>Poplar Hill</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>Interruptible Load Remedial Action Scheme</td>
<td>1.1</td>
<td>0.5</td>
<td>0.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>Subtotal Poplar Hill/ILRAS</td>
<td>2.9</td>
<td>2.4</td>
<td>2.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>37</td>
<td>TOTAL ANCILLARY SERVICES</td>
<td>166.3</td>
<td>123.7</td>
<td>123.7</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

LOSSES

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Approved Forecast</th>
<th>2004-2007</th>
<th>1st DAR ¹</th>
<th>2nd DAR ¹</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>Pool Payment</td>
<td>159.9</td>
<td>145.5</td>
<td>145.6</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>39</td>
<td>Losses Studies Surcharge</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>40</td>
<td>TOTAL LOSSES COSTS</td>
<td>159.9</td>
<td>145.5</td>
<td>145.6</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

OTHER INDUSTRY COSTS

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Approved Forecast</th>
<th>2004-2007</th>
<th>1st DAR ¹</th>
<th>2nd DAR ¹</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>41</td>
<td>External Regulatory Costs</td>
<td>4.4</td>
<td>2.3</td>
<td>2.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>42</td>
<td>Western Electricity Coordinating Council (WECC)</td>
<td>0.9</td>
<td>0.8</td>
<td>0.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>43</td>
<td>Share of AUC Overhead</td>
<td>2.0</td>
<td>1.8</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>44</td>
<td>Balancing Pool</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>45</td>
<td>TOTAL OTHER INDUSTRY COSTS</td>
<td>7.3</td>
<td>5.0</td>
<td>5.0</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

GENERAL AND ADMINISTRATIVE COSTS

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Description</th>
<th>Approved Forecast</th>
<th>2004-2007</th>
<th>1st DAR ¹</th>
<th>2nd DAR ¹</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>46</td>
<td>Staff and Benefits</td>
<td>16.0</td>
<td>16.8</td>
<td>16.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>47</td>
<td>Interconnection Fees (Offset)</td>
<td>(0.9)</td>
<td>(0.7)</td>
<td>(0.7)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>48</td>
<td>Subtotal Staff &amp; Benefits</td>
<td>15.1</td>
<td>16.1</td>
<td>16.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>49</td>
<td>Consultants</td>
<td>2.9</td>
<td>3.9</td>
<td>3.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>50</td>
<td>Interconnection Fees (Offset)</td>
<td>-</td>
<td>(0.4)</td>
<td>(0.4)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>51</td>
<td>Subtotal Consultants</td>
<td>2.9</td>
<td>3.5</td>
<td>3.5</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>52</td>
<td>Board Members Fees</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>53</td>
<td>Travel and Training</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>54</td>
<td>Legal</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>55</td>
<td>Accounting and Tax Advice</td>
<td>0.3</td>
<td>0.0</td>
<td>0.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>56</td>
<td>Rent ²</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>57</td>
<td>Insurance</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>58</td>
<td>Other Administrative Costs</td>
<td>1.4</td>
<td>2.2</td>
<td>2.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>59</td>
<td>Negotiated Settlement Reduction</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>60</td>
<td>Total Administrative Costs</td>
<td>22.8</td>
<td>24.9</td>
<td>24.9</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Table 7-1 2004 First and Second Reconciliation Cost Variances, $ 000 000 (continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Forecast</th>
<th>1st DAR¹</th>
<th>2nd DAR¹</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Approved</td>
<td>2004-2007</td>
<td>2008</td>
<td>$</td>
</tr>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
</tr>
<tr>
<td>General Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>61 Interest</td>
<td>0.1</td>
<td>0.3</td>
<td>0.2</td>
<td>(0.1)</td>
</tr>
<tr>
<td>62 Amortization and Depreciation</td>
<td>1.8</td>
<td>1.6</td>
<td>1.6</td>
<td>-</td>
</tr>
<tr>
<td>63 Tariff Deficiency Correction Regulation Fee</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>64 ISO Transition Costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>65 Taxes</td>
<td>-</td>
<td>(0.4)</td>
<td>(0.4)</td>
<td>-</td>
</tr>
<tr>
<td>66 Total General Costs</td>
<td>1.9</td>
<td>1.5</td>
<td>1.4</td>
<td>(0.1)</td>
</tr>
<tr>
<td>67 TOTAL GENERAL &amp; ADMIN COSTS</td>
<td>24.7</td>
<td>26.4</td>
<td>26.3</td>
<td>(0.1)</td>
</tr>
<tr>
<td>68 Total G&amp;A and Other Industry Costs</td>
<td>32.0</td>
<td>31.3</td>
<td>31.2</td>
<td>(0.1)</td>
</tr>
<tr>
<td>69 TOTAL REVENUE REQUIREMENT</td>
<td>757.5</td>
<td>691.1</td>
<td>691.0</td>
<td>(0.0)</td>
</tr>
<tr>
<td>70 CAPITAL</td>
<td>3.3</td>
<td>5.2</td>
<td>5.2</td>
<td>-</td>
</tr>
</tbody>
</table>

and generally expected adjustments that occur over time. In the first reconciliation for 2004, in the 2004-2007 deferral account reconciliation application, the AESO considered a line item variance to be significant when it exceeded ±$3.0 million, or, if it was smaller than ±$3.0 million, when it was both at least ±$0.3 million and at least ±10% of the approved line item amount.

In this second reconciliation for 2004, variances are represented by cost adjustments which occurred after the first reconciliation. It seems inappropriate to use the same threshold levels for variance explanations for adjustments as would be used in a first reconciliation. The AESO considers it reasonable to reduce the variance explanation thresholds by half, recognizing that costs may have varied from forecast in the first reconciliation and may also vary again due to further adjustments in this second reconciliation. Although each variance might be less than the ±$3.0 million threshold, together they may exceed it.

Therefore, in Table 7-1, the AESO considered a line item variance to be significant when it exceeded ±$1.5 million, or, if it was smaller than ±$1.5 million, when it was both at least ±$0.15 million and at least ±5% of the first reconciliation recorded costs line item amount. Variances exceeding these thresholds are shaded in Table 7-1, with explanations provided by line number in the following discussion. Where variances were either less than ±$0.15 million or less than ±5% (except where such variance is ±$1.5 million or greater) explanations are not provided, as such variances are considered small enough that specific variance explanations are not required.

7.2.1 General and Administrative Costs

The 2004 second reconciliation recorded general and administrative costs were $263.0 million, which is $0.1 million (or 0.3%) less than the first reconcile recorded costs of
$26.4 million, due to the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application.

**Line 61 Interest**

Interest expense includes interest incurred by the AESO on bank debt held to provide working capital and to fund capital purchases, credit facility standby fees, and fees charged related to the letter of credit issued as security for operating reserve procurement. The 2004 second reconciliation recorded interest expense was $0.2 million, which is $0.1 million (or 28%) less than the first reconciliation recorded expense of $0.3 million, due to the removal of the redistribution of interest.

In the 2004 first reconciliation, interest expense included $0.1 million reflecting the proposed recognition of interest on deferral account balances and its redistribution between production years and months. That amount has been removed in this 2004 second reconciliation in accordance with the AUC’s order in Decision 2009-010 on the AESO’s 2004-2007 deferral account reconciliation application, as discussed in section 2.3 of this application.

### 7.3 2004 Revenue Adjustments After First Reconciliation

The AESO’s 2004 forecast “base rate” revenue was discussed in the 2004-2007 deferral account reconciliation application. Base rates exclude Deferral Account Adjustment Rider C, which collects or refunds revenue during the year to align actual revenue with actual costs by rate and rate component. The AESO does not forecast Rider C amounts as part of its tariff applications, and Rider C is therefore not included in this discussion of variances from forecast. Base rate revenue also excludes any amounts collected or refunded through deferral account reconciliation applications.

Variances of recorded base rate revenue from the 2004 forecast were explained in the first reconciliation of the 2004 deferral account (for those transactions included in that first reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009. No further discussion of those base rate revenue variances is provided in this application. Only revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

Specifically, the 2004 revenue adjustments which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:
- relate to 2004,
- occurred after the cut-off date of March 31, 2008 for data included in the 2004 first reconciliation, and
- occurred up to December 31, 2008.

These 2004 revenue adjustments, together with the original 2004-related transactions which were included in the first reconciliation, establish the 2004 production year revenue data for deferral account reconciliation purposes in this application.
Table 7-2 accordingly includes the following information for 2004:
- column (b) contains the 2004 recorded base rate revenue included in the first reconciliation in the 2004-2007 application;
- column (c) contains the 2004 recorded base rate revenue included in this application;
- column (d) provides the additional base rate revenue amounts attributed to 2004 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the revenue variances between the first and second reconciliations; and
- column (e) provides the 2004 additional revenue amounts from column (d) as a percentage of the recorded revenue from the first reconciliation in column (b).

The 2004 second reconciliation recorded base rate revenue was $757.9 million, which is $0.1 million (or 0.01%) more than the first reconciliation recorded revenue of $757.8 million.

On an annual basis, transmission revenue depends on approved transmission tariff rates, pool price, and billed volumes of demand and energy. Revenue variances after the first reconciliation generally arise due to billing adjustments, primarily reflecting changes to metered volumes such as those that occur in post-final adjustments. There were no significant variances between the first and second reconciliation recorded revenues for 2004.

Table 7-2  2004 First and Second Reconciliation Revenue Variances, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Supply Transmission Service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recorded Revenue</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Forecast Revenue (a)</td>
<td>2004-2007 1st DAR (b)</td>
</tr>
<tr>
<td>1</td>
<td>Interconnection $226.6</td>
<td>$227.5</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve 116.7</td>
<td>119.9</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support 2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>4</td>
<td>Total DTS $345.6</td>
<td>$349.6</td>
</tr>
<tr>
<td>5</td>
<td>Interconnection $155.8</td>
<td>$153.5</td>
</tr>
<tr>
<td>6</td>
<td>Losses 177.1</td>
<td>138.4</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve 118.0</td>
<td>116.4</td>
</tr>
<tr>
<td>8</td>
<td>Total STS $450.9</td>
<td>$408.3</td>
</tr>
<tr>
<td>9</td>
<td>Interconnection $382.4</td>
<td>$381.0</td>
</tr>
<tr>
<td>10</td>
<td>Losses 177.1</td>
<td>138.4</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve 234.8</td>
<td>236.2</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support 2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>13</td>
<td>Total DTS and STS $796.5</td>
<td>$757.8</td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.
7.4 2004 Second Reconciliation Deferral Account Balance

Costs and revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2004 second reconciliation are summarized in Table 7-3, and reflect the 2004 second reconciliation costs and revenues provided in Table 7-1 and 7-2 respectively.

As noted in section 1.1 of this application, the AESO’s tariff includes the use of deferral accounts, which were incorporated in the AESO’s 2004 tariff through Working Capital Deficiency/Surplus Rider B and Deferral Account Adjustment Rider C. The AESO did not invoke Rider B during 2004, but determined Rider C charges and refunds in accordance with the rider’s approved purpose to “restore deferral account balances to zero over the following calendar quarter”. The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of that quarter and forecast billing volumes for that quarter. Rider C charges and refunds attributed to 2004 are provided in column (d) of Table 7-3.

The first reconciliation of the 2004 deferral account in the AESO’s 2004-2007 deferral account reconciliation application resulted in a $5.3 million shortfall attributed to 2004, as illustrated in Table 2-6 in section 2.4 of this application. The first reconciliation shortfall was collected from customers in the interim settlement in late July 2008 of the AESO’s 2004-2007 deferral account balances approved in AUC Order U2008-253. First reconciliation interim settlement amounts attributed to 2004 are provided in column (e) of Table 7-3, and restored all 2004 deferral account balances to zero based on the transactions included in the 2004 first reconciliation.

However, this second reconciliation includes adjustments to costs and revenues that occurred after the first reconciliation of the 2004 deferral account, as discussed in section 7.2 and 7.3 where explanations were provided when the resulting line item variances were significant.

A significant variance resulted from the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application. As explained in section 2.3 of this application, the removal of the interest redistribution affects the different rate component deferral accounts to varying degrees. For 2004, the removal of the interest redistribution affects the interconnection charge, losses charge, and operating reserve charge deferral accounts.

The interconnection charge deferral account balance has increased to an undercollection of $1.6 million (or 0.4% of recorded costs) due to the removal of the redistribution of interest discussed in section 7.2.1.

The losses charge deferral account balance has decreased to an overcollection of $2.4 million (or 1.7% of recorded costs) due to the removal of the redistribution of interest discussed in section 7.2.1.
## Table 7-3 2004 Second Reconciliation Deferral Account Summary, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Supply Transmission Service</th>
<th>Total DTS and STS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Costs</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$227.6</td>
<td>($244.8)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>($17.2)</td>
<td>($22.6)</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>119.9</td>
<td>(60.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>59.2</td>
<td>(60.1)</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support</td>
<td>2.2</td>
<td>(2.2)</td>
</tr>
<tr>
<td>4</td>
<td>Total DTS</td>
<td>$349.6</td>
<td>($307.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$41.9</td>
<td>($37.4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$22.6</td>
<td>($6.3)</td>
</tr>
<tr>
<td>5</td>
<td>Interconnection</td>
<td>$153.5</td>
<td>($177.1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>($23.6)</td>
<td>($28.3)</td>
</tr>
<tr>
<td>6</td>
<td>Losses</td>
<td>138.4</td>
<td>(145.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(7.2)</td>
<td>(7.7)</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve</td>
<td>116.4</td>
<td>(60.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>55.7</td>
<td>(55.3)</td>
</tr>
<tr>
<td>8</td>
<td>Total STS</td>
<td>$408.3</td>
<td>($383.4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$24.9</td>
<td>($34.7)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$11.2</td>
<td>($11.5)</td>
</tr>
<tr>
<td>9</td>
<td>Interconnection</td>
<td>$381.0</td>
<td>($421.9)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>($40.9)</td>
<td>($50.8)</td>
</tr>
<tr>
<td>10</td>
<td>Losses</td>
<td>138.4</td>
<td>(145.6)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(7.2)</td>
<td>(7.7)</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve</td>
<td>236.3</td>
<td>(121.3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>114.9</td>
<td>(115.4)</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support</td>
<td>2.2</td>
<td>(2.2)</td>
</tr>
<tr>
<td>13</td>
<td>Total DTS and STS</td>
<td>$757.9</td>
<td>($691.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$66.9</td>
<td>($72.1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$5.3</td>
<td>$0.1</td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding.

1. DAR means Deferral Account Reconciliation.

The operating reserve charge deferral account balance has increased to an undercollection of $0.8 million (or 0.6% of recorded costs) due to the removal of the redistribution of interest discussed in section 7.2.1.

The deferral account balance for the other system support charge has not changed significantly from the first reconciliation.

The impact of all 2004 cost and revenue adjustments is a deferral account net balance decrease to an overcollection of $0.1 million (or 0.02% of recorded costs), compared to the zero balance that existed after interim settlement of amounts included in the first reconciliation.

Additional details on 2004 recorded costs and revenues are provided in Appendices B through G of this application. The allocation of the 2004 net deferral account balances to customers is discussed in section 10 of this application.
8  2003 FINANCIAL RESULTS AND DEFERRAL ACCOUNT BALANCE

357 The AESO’s 2003 costs and revenues which are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, losses, and the AESO’s own administration (which includes other industry costs and general and administrative costs).

8.1 2003 Deferral Account Third Reconciliation

358 The AESO filed its first 2003 deferral account reconciliation on June 4, 2004, and subsequently filed a second reconciliation of its 2003 deferral accounts as part of its 2004-2007 deferral account reconciliation application submitted to the AUC on June 2, 2008. That second reconciliation included all cost and revenue transactions that occurred from January 1, 2003, to March 31, 2008 and that related to 2003. The second reconciliation deferral account balance for 2003 was a surplus of $2.0 million (including the AESO’s proposed redistribution of interest) as provided in Table 2-6 in this application. The second reconciliation balance was settled with customers in July 2008 in accordance with the interim approval of the AESO’s 2004-2007 deferral account reconciliation application in AUC Order U2008-253, released on July 17, 2008.

359 The second reconciliation resulted in $728.7 million in costs and $728.7 million in customer revenues (including Rider C collections and refunds as well as interim settlement collections and refunds) being attributed to 2003.

360 In this 2008 deferral account reconciliation application, the third reconciliation for 2003 includes all cost and revenue transactions that relate to 2003 and that occurred from January 1, 2003 to December 31, 2008. These transactions establish the 2003 production month data for third reconciliation purposes in this application. Compared to the second reconciliation, this third reconciliation includes additional transactions that relate to 2003 and that occurred after March 31, 2008 up to December 31, 2008.

361 The inclusion of these additional transactions increases the 2003 recorded costs to $730.3 million. The 2003 recorded revenue remained unchanged at $728.7 million.

362 Revenue and cost transactions that occurred from January 1, 2003, to December 31, 2008 may also relate, in whole or in part, to years other than 2003. In such instances, the transaction (or part of the transaction) which relates to another year has been assigned to the relevant year, in accordance with the production month presentation described in section 2.2 of this application. Detail on the assignment between 2003 and other years for transactions which occurred from 2003 to 2008 is provided in Appendix E-1 of this application.

363 The AESO also notes that, as discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation, and were therefore not included in sections 3, 4, and 5 of this application relating to 2008, 2007, and 2006 respectively. However, transmission system
losses were subject to retrospective deferral account reconciliation in 2005 and prior years, and are therefore included in this section relating to 2003.

8.2 2003 Cost Adjustments After First Reconciliation

364 The AESO’s 2003 revenue requirement was approved in AUC Decision 2003-077 on the AESO’s 2003 General Tariff Application, released on November 4, 2003, and is provided as column (a) in Table 8-1. Variances of recorded costs from that approved forecast were explained in the first and second reconciliations of the 2003 deferral account (for those transactions included in those first and second reconciliations). First reconciliation variances were approved in AUC Decision 2005-034 on the AESO’s 2003 Deferral Account Reconciliation released on April 19, 2005. Second reconciliation variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 Deferral Account Reconciliation released on January 27, 2009, with the exception of the proposed redistribution of interest discussed in section 2.3 of this application. No further discussion of those variances is provided in this application. Only 2003 cost adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application.

365 Specifically, the 2003 cost adjustments which occurred after the second deferral account reconciliation and which are included in this third reconciliation are those transactions that:
- relate to 2003,
- occurred after the cut-off date of March 31, 2008 for data included in the 2003 second reconciliation, and
- occurred up to December 31, 2008.

366 These 2003 cost adjustments, together with the original 2003-related transactions which were included in the first and second reconciliations, establish the 2003 production year cost data for deferral account reconciliation purposes in this application.

367 Table 8-1 includes the following information for 2003:
- column (b) contains the 2003 recorded costs included in the second reconciliation in the 2004-2007 application (including the redistribution of interest which is removed in this application as discussed in section 2.3 of this application);
- column (c) contains the 2003 recorded costs included in this application;
- column (d) provides the additional amounts attributed to 2003 which occurred after the cut-off date for transactions included in the second reconciliation — that is, the cost variances between the second and third reconciliations; and
- column (e) provides the 2003 additional amounts from column (d) as a percentage of the recorded costs from the second reconciliation in column (b).

368 As already discussed in the previous sections of this application, variances arise due to a number of factors, including finalization of TFO costs through AUC decisions, variances from forecast of volumes and pool price, delays and changes in AESO schedules and priorities, and generally expected adjustments that occur over time. In the second reconciliation for 2003, in the 2004-2007 deferral account reconciliation application, the AESO considered a
### Table 8-1  2003 Second and Third Reconciliation Cost Variances, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>WIRES</th>
<th>TFO’S Wires-Related Costs</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Approved Forecast</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
</tr>
<tr>
<td>1</td>
<td>AltaLink</td>
<td>133.3 42.5 150.8 150.8</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td>ATCO Electric Ltd.</td>
<td>132.6 42.5 133.5 133.5</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>3</td>
<td>Foster Creek Substation</td>
<td>1.4 0.4 1.4 1.4</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>4</td>
<td>Isolated Generation</td>
<td>61.0 42.5 61.0 61.0</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>5</td>
<td>Subtotal ATCO Costs</td>
<td>127.9 127.9 127.9 127.9</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>6</td>
<td>Enmax Power Corporation</td>
<td>34.4 32.6 32.6 32.6</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>7</td>
<td>EPCOR Transmission Inc.</td>
<td>34.0 29.3 29.3 29.3</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>8</td>
<td>City of Lethbridge</td>
<td>2.8 2.8 2.8 2.8</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>9</td>
<td>TransAlta</td>
<td>2.7 2.7 2.7 2.7</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>10</td>
<td>City of Red Deer</td>
<td>1.8 1.8 1.8 1.8</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>11</td>
<td>Aquila Networks (Farm)</td>
<td>1.9 1.9 1.9 1.9</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>12</td>
<td>Unassigned Capital Additions</td>
<td>1.1 - - -</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>13</td>
<td>Subtotal TFO Wires-Related Costs</td>
<td>339.9 351.2 351.3 351.3</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>14</td>
<td>Invitation to Bid on Credits (IBOC)</td>
<td>2.7 2.4 2.4 2.4</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>15</td>
<td>Location Based Credit Standing Offer (LBC SO)</td>
<td>3.9 4.4 4.4 4.4</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>16</td>
<td>Subtotal IBOC/LBC SO Costs</td>
<td>6.6 6.8 6.8 6.8</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>17</td>
<td>Prior Period Adjustment</td>
<td>- (0.0) - (0.0)</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
<tr>
<td>18</td>
<td>TOTAL WIRES COSTS</td>
<td>346.5 358.0 358.1 358.1</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
</tr>
</tbody>
</table>

### ANCILLARY SERVICES

#### Operating Reserves

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Active</th>
<th>Regulating</th>
<th>48.2 42.2 42.2</th>
<th>2nd DAR¹</th>
<th>3rd DAR¹</th>
<th>$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>Spinning</td>
<td>49.3 45.5 45.5</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Supplemental</td>
<td>24.7 8.4 8.4</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Subtotal Active Reserves</td>
<td>122.2 96.2 96.2</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Standby</td>
<td>Regulating</td>
<td>22.1 9.8 9.8</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
</tr>
<tr>
<td>23</td>
<td>Spinning</td>
<td>19.1 12.2 12.2</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Supplemental</td>
<td>3.6 3.3 3.3</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Subtotal Standby Reserves</td>
<td>44.8 25.3 25.3</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Trading Fees &amp; Other Related Charges</td>
<td>- (1.3) (1.3)</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Subtotal Operating Reserves</td>
<td>167.0 120.2 120.2</td>
<td>2nd DAR¹</td>
<td>3rd DAR¹</td>
<td>$</td>
<td>%</td>
<td></td>
</tr>
</tbody>
</table>
Table 8-1  2003 Second and Third Reconciliation Cost Variances, $ 000 000 (continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Other Ancillary Services</th>
<th>Recorded Costs</th>
<th>Variance Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Approved Forecast</td>
<td>2004-2007</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a)</td>
<td>(b)</td>
</tr>
<tr>
<td>29</td>
<td>Generator Remedial Action Schemes (RAS)</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>30</td>
<td>Black Start</td>
<td>2.2</td>
<td>1.0</td>
</tr>
<tr>
<td>31</td>
<td>Transmission Must Run (TMR)</td>
<td>26.1</td>
<td>43.8</td>
</tr>
<tr>
<td>32</td>
<td>Under Frequency Mitigation</td>
<td>5.2</td>
<td>6.5</td>
</tr>
<tr>
<td>33</td>
<td>Hydro Motoring</td>
<td>4.2</td>
<td>2.8</td>
</tr>
<tr>
<td>34</td>
<td>Fort Saskatchewan Load Shed</td>
<td>0.9</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>Subtotal Other Ancillary Services</td>
<td>39.0</td>
<td>54.5</td>
</tr>
<tr>
<td></td>
<td>Poplar Hill/ILRAS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Poplar Hill</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>37</td>
<td>Interruptible Load Remedial Action (ILRAS)</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>38</td>
<td>Subtotal Poplar Hill/ILRAS</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>39</td>
<td>TOTAL ANCILLARY SERVICES</td>
<td>208.4</td>
<td>177.4</td>
</tr>
<tr>
<td></td>
<td>LOSSES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>Pool Payment</td>
<td>142.7</td>
<td>156.2</td>
</tr>
<tr>
<td>41</td>
<td>TOTAL LOSSES COSTS</td>
<td>142.7</td>
<td>156.2</td>
</tr>
<tr>
<td></td>
<td>OTHER INDUSTRY COSTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>External Regulatory Costs</td>
<td>9.8</td>
<td>7.7</td>
</tr>
<tr>
<td>43</td>
<td>Western Electricity Coordination Council (WECC)</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td>44</td>
<td>Share of AUC Overhead</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>45</td>
<td>TOTAL OTHER INDUSTRY COSTS</td>
<td>12.4</td>
<td>9.3</td>
</tr>
<tr>
<td></td>
<td>GENERAL AND ADMINISTRATIVE COSTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Staff and Benefits</td>
<td>8.3</td>
<td>12.7</td>
</tr>
<tr>
<td>47</td>
<td>Interconnection Fees (Offset)</td>
<td>(0.2)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>48</td>
<td>Subtotal Staff &amp; Benefits</td>
<td>8.1</td>
<td>12.4</td>
</tr>
<tr>
<td>49</td>
<td>Consultants</td>
<td>2.5</td>
<td>4.3</td>
</tr>
<tr>
<td>50</td>
<td>Interconnection Fees (Offset)</td>
<td>(0.3)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>51</td>
<td>Subtotal Consultants</td>
<td>2.2</td>
<td>4.0</td>
</tr>
<tr>
<td>52</td>
<td>Board Members Fees</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>53</td>
<td>Travel and Training</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>54</td>
<td>Legal</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>55</td>
<td>Accounting and Tax Advice</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>56</td>
<td>Rent</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>57</td>
<td>Insurance</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>58</td>
<td>Other Administrative Costs</td>
<td>0.7</td>
<td>1.9</td>
</tr>
<tr>
<td>59</td>
<td>Negotiated Settlement Reduction</td>
<td>(0.4)</td>
<td>-</td>
</tr>
<tr>
<td>60</td>
<td>Total Administrative Costs</td>
<td>12.9</td>
<td>21.6</td>
</tr>
</tbody>
</table>
### Table 8-1  2003 Second and Third Reconciliation Cost Variances, $ 000 000 (continued)

<table>
<thead>
<tr>
<th>Line No.</th>
<th>General Costs</th>
<th>System Controller Shared Costs</th>
<th>Total G&amp;A and Other Industry Costs</th>
<th>TOTAL REVENUE REQUIREMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Forecast (a)</td>
<td>2nd DAR¹ (b)</td>
<td>3rd DAR¹ (c)</td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>Interest</td>
<td>0.1 (1.7)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>Amortization and Depreciation</td>
<td>1.5</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>63</td>
<td>Tariff Deficiency Correction Regulation Fee</td>
<td>4.9</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>64</td>
<td>ISO Transition Costs</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>65</td>
<td>Taxes</td>
<td>-</td>
<td>0.5</td>
<td>-</td>
</tr>
<tr>
<td>66</td>
<td>Total General Costs</td>
<td>7.7</td>
<td>6.1</td>
<td>7.8</td>
</tr>
<tr>
<td>67</td>
<td>Total G&amp;A and Administrative Costs</td>
<td>20.6</td>
<td>27.7</td>
<td>29.4</td>
</tr>
<tr>
<td>68</td>
<td>System Controller Shared Costs</td>
<td>3.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>69</td>
<td>Total G&amp;A and System Controller Costs</td>
<td>24.2</td>
<td>27.7</td>
<td>29.4</td>
</tr>
<tr>
<td>70</td>
<td>Total G&amp;A and Other Industry Costs</td>
<td>36.6</td>
<td>37.0</td>
<td>38.6</td>
</tr>
<tr>
<td>71</td>
<td>TOTAL REVENUE REQUIREMENT</td>
<td>734.2</td>
<td>728.6</td>
<td>730.3</td>
</tr>
<tr>
<td>72</td>
<td>CAPITAL</td>
<td>1.8</td>
<td>2.2</td>
<td>-</td>
</tr>
</tbody>
</table>

**Notes:**
- Numbers may not add due to rounding.
- Shaded numbers indicate significant variances which are discussed in the text.
- ¹ DAR means Deferral Account Reconciliation.

Line item variance to be significant when it exceeded ±$1.5 million, or, if it was smaller than ±$1.5 million, when it was both at least ±$0.15 million and at least ±5% of the approved line item amount.

In this third reconciliation for 2003, variances are represented by cost adjustments which occurred after the second reconciliation. It seems inappropriate to use the same threshold levels for variance explanations as would be used in a second reconciliation. The AESO considers it reasonable to reduce the second reconciliation variance explanation thresholds by one-third, recognizing that costs may have varied from forecast in the first and second reconciliations and may also vary again due to further adjustments in this third reconciliation. Although each variance might be less than the first or second reconciliation threshold, together they may exceed it.

Therefore, in Table 8-1, the AESO considered a line item variance to be significant when it exceeded ±$1.0 million, or, if it was smaller than ±$1.0 million, when it was both at least ±$0.1 million and at least ±3% of the second reconciliation recorded costs line item amount. Variances exceeding these thresholds are shaded in Table 8-1, with explanations provided by line number in the following discussion. Where variances were either less than ±$0.1 million or less than ±3% (except where such variance is ±$1.0 million or greater).
explanations are not provided, as such variances are considered small enough that specific variance explanations are not required.

### 8.2.1 General and Administrative Costs

The 2003 third reconciliation recorded general and administrative costs were $29.4 million, which is $1.7 million (or 6%) more than the second reconciliation recorded costs of $27.7 million, due to the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application.

#### Line 61 Interest

Interest expense includes interest incurred by the AESO on bank debt held to provide working capital and to fund capital purchases, credit facility standby fees, and fees charged related to the letter of credit issued as security for operating reserve procurement. The 2003 third reconciliation recorded interest expense was $0.0 million, which is $1.7 million (or 100%) more than the second reconciliation recorded credit of $1.7 million, due to the removal of the redistribution of interest.

In the 2003 second reconciliation, interest expense included a $1.7 million credit reflecting the proposed recognition of interest on deferral account balances and its redistribution between production years and months. That amount has been removed in this 2003 third reconciliation in accordance with the AUC’s order in Decision 2009-010 on the AESO’s 2004-2007 deferral account reconciliation application, as discussed in section 2.3 of this application.

### 8.3 2003 Revenue Adjustments After Second Reconciliation

The AESO’s 2003 first reconciliation “base rate” revenue was discussed in the 2004-2007 deferral account reconciliation application and is provided in column (a) of Table 8-2. Base rates exclude Deferral Account Adjustment Rider C, which collects or refunds revenue during the year to align actual revenue with actual costs by rate and rate component. The AESO does not forecast Rider C amounts as part of its tariff applications, and Rider C is therefore not included in this discussion of variances from forecast. Base rate revenue also excludes any amounts collected or refunded through deferral account reconciliation applications.

Variances of recorded base rate revenue from the 2003 first reconciliation were explained in the second reconciliation of the 2003 deferral account (for those transactions included in that second reconciliation). Those variances were approved in AUC Decision 2009-010 on the AESO’s 2004-2007 deferral account reconciliation released on January 27, 2009. No further discussion of those base rate revenue variances is provided in this application. Only revenue adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application.
Specifically, the 2003 revenue adjustments which occurred after the second deferral account reconciliation and which are included in this third reconciliation are those transactions that:

- relate to 2003,
- occurred after the cut-off date of March 31, 2008 for data included in the 2003 second reconciliation, and
- occurred up to December 31, 2008.

These 2003 revenue adjustments, together with the original 2003-related transactions which were included in the first and second reconciliations, establish the 2003 production year revenue data for deferral account reconciliation purposes in this application.

Table 8-2 accordingly includes the following information for 2003:

- column (b) contains the 2003 recorded base rate revenue included in the second reconciliation in the 2004-2007 application;
- column (c) contains the 2003 recorded base rate revenue included in this application;
- column (d) provides the additional base rate revenue amounts attributed to 2003 which occurred after the cut-off date for transactions included in the second reconciliation — that is, the revenue variances between the second and third reconciliations; and

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st DAR ¹</td>
<td>2nd DAR ¹</td>
<td>3rd DAR ¹</td>
<td></td>
<td>(d)=(c)-(b)</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$236.9</td>
<td>$234.9</td>
<td>$234.9</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>121.7</td>
<td>121.9</td>
<td>121.9</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Total DTS</td>
<td>$360.8</td>
<td>$359.0</td>
<td>$359.0</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Supply Transmission Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Interconnection</td>
<td>$160.5</td>
<td>$158.6</td>
<td>$158.6</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>6</td>
<td>Losses</td>
<td>216.2</td>
<td>216.5</td>
<td>216.6</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve</td>
<td>116.3</td>
<td>116.0</td>
<td>116.1</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>8</td>
<td>Total STS</td>
<td>$493.0</td>
<td>$491.2</td>
<td>$491.2</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>Total DTS and STS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Interconnection</td>
<td>$397.3</td>
<td>$393.5</td>
<td>$393.5</td>
<td>$0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>10</td>
<td>Losses</td>
<td>216.2</td>
<td>216.5</td>
<td>216.6</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve</td>
<td>238.0</td>
<td>237.9</td>
<td>237.9</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support</td>
<td>2.3</td>
<td>2.2</td>
<td>2.2</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Total DTS and STS</td>
<td>$853.9</td>
<td>$850.1</td>
<td>$850.2</td>
<td>$0.1</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Notes: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.
• column (e) provides the 2003 additional revenue amounts from column (d) as a percentage of the recorded revenue from the second reconciliation in column (b).

The 2003 third reconciliation recorded base rate revenue was $850.2 million, which is $0.1 million (or 0.01%) more than the second reconciliation recorded revenue of $850.1 million.

On an annual basis, transmission revenue depends on approved transmission tariff rates, pool price, and billed volumes of demand and energy. Revenue variances after the second reconciliation generally arise due to billing adjustments, primarily reflecting changes to metered volumes such as those that occur in post-final adjustments. There were no significant variances between the second and third reconciliation recorded revenues for 2003.

8.4 2003 Third Reconciliation Deferral Account Balance

Costs and revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2003 third reconciliation are summarized in Table 8-3, and reflect the 2003 third reconciliation costs and revenues provided in Table 8-1 and 8-2 respectively.

As noted in section 1.1 of this application, the AESO’s tariff includes the use of deferral accounts, which were incorporated in the AESO’s 2003 tariff through Working Capital Deficiency/Surplus Rider B and Deferral Account Adjustment Rider C. The AESO did not invoke Rider B during 2003, but determined Rider C charges and refunds in accordance with the rider’s approved purpose to “restore deferral account balances to zero over the following calendar quarter”. The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of that quarter and forecast billing volumes for that quarter. Rider C charges and refunds attributed to 2003 are provided in column (d) of Table 8-3.

The second reconciliation of the 2003 deferral account in the AESO’s 2004-2007 deferral account reconciliation application resulted in a $2.0 million surplus attributed to 2003, as illustrated in Table 2-6 in section 2.4 of this application. The second reconciliation surplus was refunded to customers in the interim settlement in late July 2008 of the AESO’s 2004-2007 deferral account balances approved in AUC Order U2008-253. Second reconciliation interim settlement amounts attributed to 2003 are included with first reconciliation settlement amounts in column (e) of Table 8-3, and restored all 2003 deferral account balances to zero based on the transactions included in the 2003 second reconciliation.

However, this third reconciliation includes adjustments to costs and revenues that occurred after the second reconciliation of the 2003 deferral account, as discussed in sections 8.2 and 8.3 where explanations were provided when the resulting line item variances were significant.

A significant variance resulted from the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application. As explained in section 2.3 of this application, the removal of the interest redistribution affects the different rate component
### Table 8-3 2003 Third Reconciliation Deferral Account Summary, $000,000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Supply Transmission Service</th>
<th>Total DTS and STS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recorded Revenue (a)</td>
<td>Recorded Costs (b)</td>
<td>Over (Under) Collection (c)=(a)+(b)</td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$234.9</td>
<td>($230.3)</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>121.9</td>
<td>(87.4)</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support</td>
<td>2.2</td>
<td>(2.5)</td>
</tr>
<tr>
<td>4</td>
<td>Total DTS</td>
<td>$359.0</td>
<td>($320.1)</td>
</tr>
<tr>
<td>5</td>
<td>Interconnection</td>
<td>$158.6</td>
<td>($166.6)</td>
</tr>
<tr>
<td>6</td>
<td>Losses</td>
<td>216.6</td>
<td>(156.2)</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve</td>
<td>116.1</td>
<td>(87.4)</td>
</tr>
<tr>
<td>8</td>
<td>Total STS</td>
<td>$491.2</td>
<td>($410.2)</td>
</tr>
<tr>
<td>9</td>
<td>Interconnection</td>
<td>$393.5</td>
<td>($396.9)</td>
</tr>
<tr>
<td>10</td>
<td>Losses</td>
<td>216.6</td>
<td>(156.2)</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve</td>
<td>237.9</td>
<td>(174.7)</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support</td>
<td>2.2</td>
<td>(2.5)</td>
</tr>
<tr>
<td>13</td>
<td>Total DTS and STS</td>
<td>$850.2</td>
<td>($730.3)</td>
</tr>
</tbody>
</table>

**Notes:**
- Numbers may not add due to rounding.
- \(^1\) DAR means Deferral Account Reconciliation.

Deferral accounts to varying degrees. For 2003, the removal of the interest redistribution primarily affects the interconnection charge and losses charge deferral accounts.

The interconnection charge deferral account balance has decreased to an overcollection of $1.7 million (or 0.4% of recorded costs) due to the removal of the redistribution of interest discussed in section 7.2.1.

The losses charge deferral account balance has increased to an undercollection of $3.3 million (or 2.1% of recorded costs) due to the removal of the redistribution of interest discussed in section 7.2.1.

The deferral account balance for the operating reserve and other system support charges have not changed significantly from the second reconciliation.

The impact of all 2003 cost and revenue adjustments is a deferral account net balance increase to an undercollection of $1.6 million (or 0.2% of recorded costs), compared to the zero balance that existed after interim settlement of amounts included in the second reconciliation.
Additional details on 2003 recorded costs and revenues are provided in Appendices B through G of this application. The allocation of the 2003 net deferral account balances to customers is discussed in section 10 of this application.
9 PRE-2003 DEFERRAL ACCOUNT ADJUSTMENTS

391 The AESO’s pre-2003 cost and revenue adjustments which are subject to retrospective reconciliation in this application are those related to wires, ancillary services, losses, and the AESO’s own administration (which includes other industry costs and general and administrative costs).

392 As noted in section 1.1 of this application, the AESO’s tariff includes the use of deferral accounts, which were incorporated in the AESO’s pre-2003 tariffs through Working Capital Deficiency/Surplus Rider B and Deferral Account Adjustment Rider C. The AESO determined deferral account rider charges and refunds in accordance with the riders’ approved purpose to restore deferral account balances to zero. The AESO set rider rates based on estimates of deferral account balances and forecast billing volumes. Additional charges and refunds relating to deferral account outstanding balances resulted after deferral account reconciliations were submitted to and approved by the AUC.

393 However, cost and revenue adjustments relating to a deferral account year can continue to occur after a deferral account reconciliation is submitted and approved. Previous sections of this application discussed such adjustments relating to 2003 through 2007. Adjustments relating to years before 2003 are addressed in this section of the application through a simplified approach. As explained in section 2.2 of this application, the simplified approach was adopted because of the impracticality of full production-month reconciliations and the small amounts of adjustments for those years.

394 Adjustment transactions included in this application have affected production month and production year data for 2002 and 2001. Specifically, the 2002 and 2001 adjustments included in this application are those transactions that:

- relate to 2002 and 2001,
- occurred after the cut-off date of March 31, 2008 for data included in the 2004-2007 deferral account reconciliation application, and
- occurred up to December 31, 2008.

395 The net impacts of adjustment transactions on 2002 and 2001 deferral account balances, including the redistribution of interest which is removed in this application as discussed in section 2.3 of this application, are:

- an undercollection of $2.2 million for 2002, and
- an overcollection of $0.05 million for 2001.

396 Table 9-1 provides a summary by main revenue and cost categories of the adjustment transactions included in this application which relate to years prior to 2003. These transactions occurred after March 31, 2008 and up to December 31, 2008, as discussed above, and determine the overall deferral account balances for 2002 and 2001 that remain outstanding as of December 31, 2008.

397 Table 9-1 includes only one significant cost adjustment: the $2.3 million charge to general and administrative expense in 2002 attributable to the removal of the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation application. The AESO’s
### Table 9-1  2002 and 2001 Deferral Account Adjustments Summary, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Recorded Revenue Adjustment Increases (Decreases)</th>
<th>Recorded Cost Adjustment Decreases (Increases)</th>
<th>Deferral Account Adjustment Surplus (Shortfall)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DA Adjustments ($ 000 000)</td>
<td>Totals</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2002 (a)</td>
<td>2001 (b)</td>
<td>2001-2002 (e)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$0.0</td>
<td>$0.1</td>
</tr>
<tr>
<td>2</td>
<td>Losses</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>3</td>
<td>Operating Reserve</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>4</td>
<td>Other System Support</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>5</td>
<td>Total Revenue Adjustments</td>
<td>$0.1</td>
<td>$0.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$0.1</td>
</tr>
<tr>
<td>6</td>
<td>Wires</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Ancillary Services</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td>Losses</td>
<td>(0.0)</td>
<td>(0.0)</td>
</tr>
<tr>
<td>9</td>
<td>Other Industry</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>General &amp; Administrative</td>
<td>(2.3)</td>
<td>-</td>
</tr>
<tr>
<td>11</td>
<td>Total Cost Adjustments</td>
<td>($2.3)</td>
<td>($0.0)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>($2.3)</td>
</tr>
<tr>
<td>12</td>
<td>Net Surplus (Shortfall)</td>
<td>($2.2)</td>
<td>$0.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>($2.2)</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

2004-2007 application included an interest expense decrease for 2002 of $2.3 million reflecting the proposed recognition of interest on deferral account balances and its redistribution between production years and months. That amount has been removed in this application in accordance with the AUC’s order in Decision 2009-010 on the AESO’s 2004-2007 deferral account reconciliation application, as discussed in section 2.3 of this application.

Adjustments to revenues in 2002 and 2001 have been small, with a net total increase in revenue of $0.1 million. Revenue adjustments generally arise due to billing adjustments, primarily reflecting changes to metered volumes such as those that occur in post-final adjustments.

#### 9.1 2002 Deferral Account Adjustments

Adjustments related to 2002 result in a net $2.2 million undercollection for reconciliation and allocation purposes in this application. Table 9-2 provides a summary of the impact of 2002 adjustments on deferral account balances by rate component.

The removal of the interest redistribution discussed above results in the only significant deferral account adjustment for 2002. As explained in section 2.3 of this application, the removal of the interest redistribution affects the different rate component deferral accounts to varying degrees. For 2002, the removal of the interest redistribution affects the losses charge deferral account, which has increased to an undercollection of $2.3 million.
### Table 9-2  2002 Deferral Account Adjustments, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Supply Transmission Service</th>
<th>Total DTS and STS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interconnection</td>
<td>Interconnection</td>
<td>Interconnection</td>
</tr>
<tr>
<td>1</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>2</td>
<td>0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>3</td>
<td>0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>4</td>
<td><strong>Total DTS</strong></td>
<td><strong>Total STS</strong></td>
<td><strong>Total DTS and STS</strong></td>
</tr>
<tr>
<td></td>
<td>$0.0</td>
<td>($2.3)</td>
<td>$(2.2)</td>
</tr>
</tbody>
</table>

**Deferral Account Adjustments**

- **Recorded Revenue**
- **Recorded Costs**
- **Net Over (Under)**

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Recorded Revenue</th>
<th>Recorded Costs</th>
<th>Collection Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interconnection</td>
<td>$0.0</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td><strong>Total DTS</strong></td>
<td>$0.0</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Interconnection</td>
<td>$0.0</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Losses</td>
<td>0.0</td>
<td>(2.3)</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>8</td>
<td><strong>Total STS</strong></td>
<td>$0.0</td>
<td>($2.3)</td>
</tr>
<tr>
<td>9</td>
<td>Interconnection</td>
<td>$0.0</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Losses</td>
<td>0.0</td>
<td>(2.3)</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support</td>
<td>0.0</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td><strong>Total DTS and STS</strong></td>
<td>$0.1</td>
<td>($2.3)</td>
</tr>
</tbody>
</table>

**Note:** Numbers may not add due to rounding.

The deferral account balances for the interconnection, operating reserve, and other system support charges have not been significantly affected by adjustments in this application.

Additional information on the 2002 cost and revenue adjustments are provided in Appendix E-1 of this application. The allocation of the 2002 deferral account adjustments to customers is discussed in section 10 of this application.

### 9.2  2001 Deferral Account Adjustments

Adjustments related to 2001 result in a net $0.05 million overcollection for reconciliation and allocation purposes in this application. Table 9-3 provides a summary of the impact of 2001 adjustments on deferral account balances by rate component.

No deferral account balances have been significantly affected by adjustments in this application for 2001.

Additional information on the 2001 cost and revenue adjustments are provided in Appendix E-1 of this application. The allocation of the 2001 deferral account adjustments to customers is discussed in section 10 of this application.
### Table 9-3 2001 Deferral Account Adjustments, $ 000 000

<table>
<thead>
<tr>
<th>Line No.</th>
<th>Demand Transmission Service</th>
<th>Supply Transmission Service</th>
<th>Total DTS and STS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Recorded Revenue (a)</td>
<td>Recorded Costs (b)</td>
<td>Collection Variance (c)=(a)+(b)</td>
</tr>
<tr>
<td>1</td>
<td>Interconnection $0.0</td>
<td>-</td>
<td>$0.0</td>
</tr>
<tr>
<td>2</td>
<td>Operating Reserve 0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>3</td>
<td>Other System Support 0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>4</td>
<td>Total DTS</td>
<td>$0.0</td>
<td>($0.0)</td>
</tr>
<tr>
<td>5</td>
<td>Interconnection $0.0</td>
<td>-</td>
<td>$0.0</td>
</tr>
<tr>
<td>6</td>
<td>Losses 0.0</td>
<td>(0.0)</td>
<td>0.0</td>
</tr>
<tr>
<td>7</td>
<td>Operating Reserve 0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>8</td>
<td>Total STS</td>
<td>$0.0 ($0.0)</td>
<td>$0.0</td>
</tr>
<tr>
<td>9</td>
<td>Interconnection $0.0</td>
<td>-</td>
<td>$0.0</td>
</tr>
<tr>
<td>10</td>
<td>Losses 0.0</td>
<td>(0.0)</td>
<td>0.0</td>
</tr>
<tr>
<td>11</td>
<td>Operating Reserve 0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>12</td>
<td>Other System Support 0.0</td>
<td>-</td>
<td>0.0</td>
</tr>
<tr>
<td>13</td>
<td>Total DTS and STS</td>
<td>$0.0 ($0.0)</td>
<td>$0.0</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.
10 ALLOCATION TO CUSTOMERS

406 Deferral account balances and adjustments are allocated to customers as in the AESO’s prior deferral account reconciliation applications, and in accordance with the conclusions reached during extensive stakeholder consultation from 2004 through 2008 as summarized in Appendix A of the 2004-2007 application. The allocation is also implemented through the continued use of a software program developed by the AESO to automate deferral account reconciliation calculations.

10.1 Allocation of 2003 to 2008 Deferral Account Balances

407 As in the previous deferral account reconciliation applications for 2003 and 2004-2007, deferral account balances are calculated on a production month basis as the costs paid by rate and rate component for each year from 2003 to 2008. (Deferral accounts in prior years were reconciled on an accounting month (for 2002) or accounting year (for 2001) basis.) Consistent with treatment in prior years, these deferral account balances have been allocated to individual customers based on each customer’s percentage of total revenue collected based on the rates in place during the period, by month (or year) and by rate component, except for losses.

408 As discussed in section 2.1.2 of this application, effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation. Since that time, Calibration Factor Rider E has adjusted loss factors for the recovery of the actual costs of losses on a prospective basis in accordance with section 33(1) of the Transmission Regulation. There is accordingly no allocation of losses deferral account balances to customers included in this application for 2006, 2007, and 2008.

409 Deferral account balances associated with losses for 2003, 2004, and 2005 remain subject to retrospective deferral account reconciliation and are included in this application. As in the 2003 and 2004-2007 deferral account reconciliation applications, those 2003, 2004, and 2005 balances for losses deferral accounts have been 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 manner in which the costs of losses are recovered. During 2003, 2004, and 2005, generators paid losses charges on the basis of normalized loss factors, which are the aggregate of “raw” loss factors that are unique to each generator and “shift” factors that apply equally to all generators. Thus, for example, two generators with identical generation profiles paying different losses charges would have been equally affected by higher than necessary shift factors and should receive equal refunds. Applying credits or charges on the basis of total revenues received related to losses would produce, in this instance, the incorrect result of refunding different amounts to each of these similar generators. The “production times pool price” allocation methodology, as approved in prior reconciliation applications and as utilized in this application, correctly refunds the same amount to each of these similar generators.

410 After the allocation of deferral account balances is determined by rate and rate component for each customer, additional revenue already paid by or refunded to each customer
(through Rider C or in prior deferral account reconciliation settlements) is subtracted or added by rate and rate component. The remaining balance is the amount of the deferral account charge or refund attributed to the customer on a production month basis, by rate and rate component.

For additional clarity, in this application the second reconciliations for 2004 through 2007 and the third reconciliations for 2003 all include deferral account charges or refunds relating to those years which were financially settled in 2005 and 2008 as a result of prior reconciliation proceedings. The additional revenue by customer that is subtracted from or added to the deferral account balances includes the settlement amounts approved in the 2003 and 2004-2007 deferral account reconciliation proceedings. In particular, the additional revenue includes the amounts settled on an interim basis in July 2008 with respect to the redistribution of interest proposed in the AESO’s 2004-2007 deferral account reconciliation application and removed in this application.

10.2 Allocation of Prior-Year Deferral Account Adjustments

As concluded during the stakeholder consultation on the AESO’s 2004-2007 deferral account reconciliation application and as approved by the AUC for that reconciliation, adjustments relating to years prior to 2003 are allocated to customers using the final allocators approved by the AUC for each of those years. Adjustments relating to 2001 are allocated by rate and rate component using the 2001 annual allocators approved in AUC Decision 2003-099. Adjustments relating to 2002 are allocated by rate and rate component using the 2002 monthly allocators approved in AUC Decision 2003-099.

10.3 Provision of Customer Allocation Information

The results of the deferral account allocation for each DTS and STS customer are included in Appendices H, J, K, and L of this application, in annual customer detail summaries and customer allocation detail. As discussed in section 2.6 of this application, customer confidentiality is protected by assigning a number to each AESO direct-connect customer as has been done in prior deferral account reconciliation applications. The numbers assigned to a specific customer are not necessarily the same for each deferral account year in this application, and are not necessarily the same as those used in prior applications.

After filing this application, the AESO will distribute to each customer the applicable customer and generator numbers for the deferral account reconciliation years included. As well, the AESO will provide to any customer on request deferral account allocation data for each of the customer’s settlement points. Such information is too extensive and detailed to be included with this application, and it is impractical to protect customer confidentiality through numerical coding when dealing with hundreds of settlement points. Instead, the AESO will advise customers of the availability of settlement point data at the time it provides customer and generator numbers. The settlement point data will include information comparable to that provided in Appendices H, J, K, and L, in Microsoft Excel format.

The AESO notes that a customer may assign its System Access Service Agreement to another customer (the “assignee”) in accordance with the AESO’s tariff (for example, under
Article 21.2 of the AESO 2007 terms and conditions of service). Where such an assignment has occurred, the deferral account allocation will be applied to the account of the assignee, and the applicable customer numbers will be provided only to the assignee.

This treatment of deferral account allocations to System Access Service Agreements that have been assigned applies to assignments effective in 2002 and later years. The AESO is unable to apply similar treatment to assignments effective in 2001 and prior years due to a lack of detailed assignment data for those years.

The most recent assignment of a System Access Service Agreement occurred in early March 2009, with no further assignments occurring in that month. The AESO has therefore determined assignees as of March 31, 2009 for charges and refunds included in this application.

### 10.4 Application of GST to Deferral Account Balances

The Goods and Services Tax ("GST") rate that is being applied to the deferral account balances being charged and refunded in this application is the current legislated federal GST rate of 5%. While the amounts settled through this application relate to transactions that originated back to 2001, it is the GST rate that is in effect when the GST becomes payable or is paid that is applied. With respect to this application, the GST will become payable or be paid when the AUC approves the interim settlement of customer charges and refunds as discussed in section 1.2 of this application.

The GST rate was reduced by the federal government from 7% to 6% in July 2006, and then to 5% in January 2008. The Canada Revenue Agency ("CRA") has indicated that when a transaction was originally subject to the 7% or 6% rate and is subsequently adjusted, the adjustment should be at the same GST rate as the original transaction. However, it is recognized that because of limitations in systems and processes, it may be necessary to apply the current rate to an adjustment even though the original transaction was subject to the previous rates. In the case of reductions between registered businesses, this is unlikely to be a concern as GST collected and paid is netted for tax reporting purposes.

Consistent with the application of GST to all settlement billings prepared by the AESO, all transactions, including both upward and downward adjustments, have the current GST rate applied.
11 PROPOSED METHOD OF REFUNDING AND COLLECTING

421 Consistent with the approach approved for the AESO’s 2003 and 2004-2007 deferral account reconciliations, the AESO proposes to settle the outstanding deferral account balances through a one-time payment and collection option.

422 The overall cash flow impact is manageable, recognizing that the individual refunds to, and collections from, each customer must be administered within a 30 to 60 day timeframe in order to ensure cash flow stability for the AESO. Under this option, the AESO proposes to refund or collect the amounts for each customer within 60 days from the date of the AUC decision regarding this application.

423 Although the AESO favours the one-time payment and collection option to expedite the final resolution and financial settlement related to the deferral account balances, it appreciates that it is not in a position to determine if this option presents a financial burden to its customers. If this option does present a financial burden to a customer, the AESO considers it reasonable to offer a 3-month payment option, including carrying charges, similar to that offered to customers in previous deferral account reconciliations.

11.1 Immediate Interim Settlement

424 As discussed in section 1.2 of this application, the AESO proposes that the refunds and charges to and from customers as a result of this application be settled as soon as possible on an interim refundable basis. The AESO understands that prior to approving immediate interim settlement, the AUC would need to be satisfied that the amounts are accurate and that such an order is in the public interest.

425 The AESO considers that the reasons set out in section 1.2 provide a sufficient basis to allow the AUC to conclude that interim settlement of the deferral account balances in the amounts allocated in this application would be both accurate and in the public interest. The AESO will therefore plan interim settlement on invoices to be issued in June 2009, pending approval of the AUC.

426 Appendix H includes the total DTS and STS amounts that will be settled with individual customers on an interim refundable basis as a result of this application, pending approval of the AUC. Table 11-1 summarizes the distribution of charges and refunds among individual DTS and individual STS customers.

427 Table 11-1 indicates that 11 DTS and 11 STS customers will receive refunds totalling $0.6 million while 39 DTS and 30 STS customers will receive charges totalling $7.0 million, as a result of this 2008 application.

428 The total charges are $0.6 million more than the $6.4 million net deferral account shortfall being settled. This $0.6 million amount indicates the magnitude of the reallocation of Rider C charges and refunds among customers in this reconciliation. The AESO submits that settlement of the amounts in this application would therefore improve the accuracy of the
<table>
<thead>
<tr>
<th>Range of Refunds and Charges</th>
<th>Number of Customers</th>
<th>Total Amount, $000 000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DTS</td>
<td>STS</td>
</tr>
<tr>
<td>Refund Greater Than $100,000</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Refund of $0 to $100,000</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Subtotal Refunds</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Charge Greater Than $0 to $100,000</td>
<td>28</td>
<td>23</td>
</tr>
<tr>
<td>Charge Greater Than $100,000 to $500,000</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Charge Greater Than $500,000 to $1,000,000</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Charge Greater Than $1,000,000</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Subtotal Charges</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>Total Refunds and Charges</td>
<td>50</td>
<td>41</td>
</tr>
</tbody>
</table>

Note: Numbers may not add due to rounding.

As already noted, the amounts settled on invoices issued in June 2009 would be interim and refundable, and subject to adjustment in the final decision on the 2008 deferral account reconciliation application following a full regulatory review. In the event such adjustment is required, the AESO proposes that the impact of the adjustment be assessed to determine whether a separate settlement process is required or whether the adjustment can be included in the 2009 deferral account reconciliation application expected to be filed in the second quarter of 2010.

The AESO suggests it may be efficient to continue to settle future deferral account reconciliations on an immediate interim basis upon filing, with any required minor adjustments included in the following year’s deferral account reconciliation. However, in this application the AESO is not seeking any direction with respect to settlement of future deferral account reconciliations.
12 RESPONSES TO DIRECTIONS

431 Previous AUC decisions on the AESO’s 2004-2007 deferral account reconciliation and other applications included directions to the AESO which were to be addressed as part of a deferral account reconciliation.

432 Responses to those directions are summarized in this section.
1 Recover KEG Unit Transformers Conversion Costs

**Direction**

In Decision 2008-101 regarding AESO recovery of costs for the Keephills-Ellerslie-Genesee ("KEG") conversion of unit transformers, released on October 21, 2008, the AUC ordered that:

1. The actual direct costs of the unit transformer conversion be paid by the AESO to the Generator Owners upon presentation of acceptable documentation to validate the quantum.

2. The AESO include these direct costs in its next Deferral Account application. [p. 8]

**Response**

The AESO has received and paid three invoices to date from EPCOR Power Development Corporation, totalling $3.3 million incurred as direct costs resulting from the KEG unit transformers conversion. A preliminary review of the invoices indicated that the costs were consistent with those anticipated in the AESO’s application for recovery of KEG unit transformers conversion costs.

However, work on the project is not anticipated to be completed until 2009. Final costs are expected to be near the $4.5 million estimate included in the AESO’s application. Any cost balance paid by the AESO after December 31, 2008 is expected to be included in the AESO’s 2009 deferral account reconciliation application.

The AESO has also engaged a consultant to complete an audit of invoices received for the project. The audit will be conducted in 2009 after the project is complete, at which time the validated costs will be finalized.
2 Remove Redistribution of Interest From 2004-2007 Reconciliation

Direction

In Decision 2009-010 regarding the AESO’s 2004-2007 deferral account reconciliation application, released on January 27, 2009, the AUC ordered that:

(3) The AESO’s proposal for a redistribution related to interest is not approved, and as a result, the AESO shall:
(a) recalculate its deferral account allocation to customers to remove the redistribution related to interest;
(b) refund or collect, as the case may be, the difference in amounts awarded to customers in Order U2008-253 and amounts recalculated as a result of removing its proposal for redistribution related to interest as ordered in Order (3)(a) of this Decision; and
(c) notify the Commission when the refund or collections, as the case may be, ordered in Order 3(b) of this Decision, have been completed. [p. 14]

Response

The AESO has removed the redistribution of interest proposed in its 2004-2007 deferral account reconciliation application, as discussed in section 2.3 of this application. The deferral account allocation for each year in this application has been calculated after the removal of the interest redistribution.

The refund or collection of the difference in amounts has been included in the deferral account allocations to customers discussed in section 10 of this application, and will be settled with customers as discussed in section 11. The individual customer amounts resulting from the removal of interest redistribution are provided in Appendix G of this application.

The AESO will notify the AUC when the refunds and collections have been completed, which is currently anticipated to be in late June 2009 subject to approval of interim settlement as discussed in section 1.2 of this application.
APPENDIX A
2008-2009 STAKEHOLDER CONSULTATION

441 Since the filing of the AESO’s 2004-2007 Deferral Account Reconciliation Application on June 2, 2008, the AESO has conducted two stakeholder consultation processes on deferral account matters.

442 • Brief consultation on the exclusion of prior year-end balances from the calculation of the first quarter Rider C for 2009 was conducted in December 2008.

443 • Consultation on the AESO’s 2008 deferral account reconciliation application and related deferral account matters was held in March 2009.

444 The consultation activities included informal conversations, meeting, discussion paper, and request for comments. Several AESO customers participated in the consultation, and written comments were provided by EnCana, EPCOR Utilities, FortisAlberta, Cities of Red Deer and Lethbridge, TransAlta, and TransCanada. The presentation, discussion paper, comments, and responses are currently available on the AESO’s website at www.aeso.ca, by following the paths Tariff ► Current Applications ► 2008 Deferral Account Reconciliation.

445 The following sections provide a summary of discussion and conclusions resulting from the consultation.

A-1 Excluding Prior Year-End Balance From Q1 2009 Rider C

446 While planning its 2008 deferral account reconciliation application, the AESO realized that a December 31, 2008 data cut-off date would not allow the inclusion of any Rider C amounts collected or refunded in the first quarter of 2009. Historically, the first quarter Rider C level has been calculated to include the recovery or refund of the prior year’s year-end balance. Continuing that practice in the first quarter of 2009 would delay the preparation and filing of the AESO’s 2008 deferral account reconciliation application by about three months.

447 The AESO considered the exclusion of the 2008 year-end balance from the first quarter 2009 Rider C calculation would provide significant benefits, including:
• earlier filing of the 2008 deferral account reconciliation application (by about three months),
• avoidance of potential volatility with the less accurate Rider C refund or collection, and
• improved transparency and efficiency by eliminating the need to prorate Q1 2009 Rider C between the 2008 and 2009 deferral account years.

448 The AESO conducted limited informal consultation by contacting stakeholders who filed argument in the AESO’s 2004-2007 deferral account reconciliation process. None raised strong objections to the proposed approach. The AESO accordingly posted information on its website describing the calculation of the Q1 2009 Rider C, and subsequently did not receive any concerns from stakeholders regarding the change in methodology.
The AESO also discussed continuing this practice in future years as part of the consultation held in March 2009.

### 2008 Deferral Account Reconciliation Application and Related Matters

As part of the preparation of this 2008 deferral account reconciliation application, the AESO consulted with stakeholders through a meeting and written comment process in March 2009. At the meeting, the AESO provided preliminary results of the 2008 reconciliation and discussed potential changes to Riders B and C as well as to future deferral account reconciliations. The meeting was attended by nine stakeholders.

Based on discussion at the meeting, the AESO reached the following conclusions on some of the topics covered in the presentation.

(a) The removal of interest redistribution as part of the 2008 deferral account reconciliation application is a practical and efficient approach to complying with the direction of the AUC in Decision 2009-010.

(b) A technical meeting is a worthwhile opportunity to review the 2008 application with the AESO, potentially avoid the need for information requests on the application, and further improve the efficiency of the regulatory proceeding.

(c) Given the limited scope of the deferral account reconciliation application, there seemed little opportunity to gain efficiency by pursuing alternatives to a regulatory proceeding such as a negotiated settlement. The application should be able to be addressed through a written proceeding, however, with no need for an oral hearing.

The AESO also requested written comments from stakeholders on additional topics, including immediate interim settlement of deferral account balances in the 2008 application and in future applications, treatment of prior-year balances in the calculation of quarterly Rider C, alternatives to full deferral account reconciliations in future applications, and potential changes to Riders B and C. The AESO reached the following conclusions on those topics, after reviewing the written comments received from six stakeholders.

(d) Immediate interim settlement of deferral account balances should generally be requested at the time a deferral account reconciliation application is filed. Five stakeholders supported that approach, while one was indifferent. In general, interim settlement was viewed as a way to settle deferral account balances as promptly as possible.

(e) Most (but not all) stakeholders supported the exclusion of prior year-end balances from the calculation of first quarter Rider C levels, as discussed in appendix A-1 above. In general, such an approach will aid in settling deferral account balances as promptly as possible. However, the AESO considers the benefits of this approach should be more fully reviewed and discussed in advance of determining the 2010 first quarter Rider C.
The AESO also discussed whether prior year transactions should be included in the calculation of second, third, and fourth quarter Rider C levels. Historically, the AESO has excluded such transactions from Rider C, and has simply retained any prior-year balances for settlement in subsequent deferral account reconciliation applications. Some stakeholders supported a change to include such transactions in Rider C, while other raised questions of alternative approaches, materiality thresholds, and impacts on customers. The AESO had initially proposed to include prior year balances in its calculation of the 2009 second quarter Rider C, but based on stakeholder comments has continued the existing practice of excluding such amounts until the additional questions raised by stakeholders can be appropriately addressed.

The AESO proposed to conduct further consultation on alternatives to full reconciliations for future deferral account reconciliation applications and on potential improvements to Riders B and C. Stakeholders generally agreed that further consultation on those topics would be of value.

The AESO currently plans to include the Rider C calculation approaches, alternatives to full reconciliations, and improvements to Riders B and C as topics in consultation on the AESO’s 2010 tariff application. Any further conclusions regarding these topics will be incorporated into that GTA or into a future deferral account reconciliation application.