

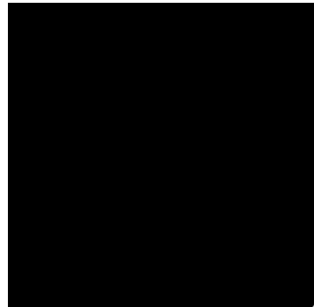


<p>2008 Deferral Account Reconciliation Application Technical Meeting</p> <p>John Martin, Regulatory Carol Moline and Roxanne Moeskops, Accounting May 4, 2009 — Calgary</p>	<p>Reliable Power</p> <p>Reliable Markets</p> <p>Reliable People</p>
 	

<p>Agenda</p>	
<ul style="list-style-type: none">• Summary and background (slides 4-11)• Removal of interest redistribution (slides 12-16)• Deferral account reconciliation methodology (slides 17-25)• Summary of deferral accounts (slides 26-27)• Significant variances (slides 28-37)• Allocation to customers (slides 38-44)• Next steps and discussion (slides 45-48)	
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Meeting Objectives



- Familiarity with application contents
- Understanding of how deferral account balances were determined and allocated to customers
- Understanding of AESO's responses to directions from prior decisions
- Expectations for balance of this proceeding
- Responses to questions about application and methodology

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2008 Deferral Account Reconciliation Application



- On April 9, 2009, the AESO filed a comprehensive deferral account reconciliation application for 2008
 - First reconciliation for 2008
 - Second reconciliations for 2007, 2006, 2005, and 2004
 - Third reconciliation for 2003
 - Reconciliations of adjustments for 2002 and 2001
- The application included all transactions accounted for up to December 31, 2008 that related to 2008 and prior years
- Application followed model of 2004-2007 application
 - Sections for each year discussed cost variances, revenue variances, and deferral account balances

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2008 Deferral Account Reconciliation Application (cont'd)



- The application included compliance with the AUC's direction that the AESO remove the redistribution related to interest proposed in the 2004-2007 application
- Appendices included extensive reports showing allocation of deferral account balances to customers
 - No changes to report layouts from those in 2004-2007 application, other than addition of 2004-2007 application settlement amounts
 - Individual allocations by settlement point are being provided on request to customers with more than one settlement point (in Microsoft Excel format)
- The AESO also requested interim approval for immediate settlement of deferral account amounts with customers

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What Was Filed in the Application?

Pages 9-10



- 1 Background and specific requests for approval
- 2 Summary of process
- 3 First reconciliation of 2008 deferral accounts
- 4-7 Second reconciliations of 2007, 2006, 2005, and 2004 deferral accounts
- 8 Third reconciliation of 2003 deferral accounts
- 9 Adjustments to 2002 and 2001 deferral accounts
- 10-11 Allocating, refunding, and collecting deferral account amounts
- 12 Responses to directions from prior decisions

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What Was Filed in the Appendices?

Page 10



- A Summary of 2008-2009 stakeholder consultation
- B-C Reconciliation to income statements and balance sheets
- D AESO annual reports
- E Miscellaneous reconciliations
- F Line loss charges
- G Removal of interest redistribution
- H Summary of customer deferral account balances
- I Guide to report layouts
- J-L Detailed allocations to customers by month and year

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Background

Pages 6-8



- 2004-2007 deferral account reconciliation application filed in June 2008
 - First reconciliations for 2007, 2006, 2005, and 2004
 - Second reconciliation for 2003
 - Reconciliations of adjustments for 1999 to 2002
- Order U2008-253 released on July 17, 2008 approved the interim distribution of deferral account balances in the 2004-2007 application in July 2008
- Decision 2009-010 released on January 27, 2009 approved the 2004-2007 application on a final basis, except for the proposed redistribution of interest

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Background (cont'd)

Pages 6-8



- 2004-2007 application was first one to use an AESO-developed software program to handle the large quantity of data involved in multi-year deferral account reconciliations
- AESO consulted with stakeholders in March 2009 on 2008 deferral account reconciliation and related matters

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Immediate Interim Settlement

Pages 8-9



- Net total 2001-2008 deferral account balance of \$6.4 million shortfall based on transactions to December 31, 2008
- Full regulatory review process will likely conclude in late 2009
- Interim refundable settlement would provide prompt and accurate collection of outstanding balances from customers
 - \$6.4 million is probable and material
 - No material concerns anticipated with methodology
 - Should result in rate stability and intergenerational equity
- Interim approval by mid-June would allow settlement on invoices issued in June

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Deferral Account Characteristics		aesO ALBERTA ELECTRIC SYSTEM OPERATOR		
Table 2-1, page 16				
Deferral Year	Reconciliation Basis	Adjustment Basis	Attribution Period	Allocation Year
2008	production	—	month	2008
2007	production	—	month	2007
2006	production	—	month	2006
2005	production	—	month	2005
2004	production	—	month	2004
2003	production	—	month	2003
2002	accounting ¹	production	month	2002
2001	accounting ¹	production	year	2001

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

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Removal of Interest Redistribution		aesO ALBERTA ELECTRIC SYSTEM OPERATOR		
Pages 16-19				
<ul style="list-style-type: none"> • In 2004-2007 deferral account reconciliation application, 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 <ul style="list-style-type: none"> – Reflected impact on interest expense of large deferral account balances over extended period of time – AESO considered the proposal to be a one-time adjustment due to unique circumstances of application – Redistribution did not change overall deferral account balance • AUC disallowed proposal in Decision 2009-010 and directed AESO to remove redistribution of interest 				

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Removal of Interest Redistribution

(cont'd) Pages 16-19



- AESO confirmed it was acceptable to comply with direction as part of 2008 deferral account reconciliation application
 - Confirmation received in AUC letter released on February 24, 2009
- Interest expense was increased or decreased by year to reverse exact amounts included in the 2004-2007 application
 - Impacts were discussed as part of cost variance explanations
- Changes to interest expense were allocated to customers in same manner as in 2004-2007 application
 - Impacts on individual customers provided in Appendix G
- No redistribution of interest with respect to balances included in 2008 application

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Removal of Interest Redistribution


(cont'd) Tables 2-2 and 2-3, Page 17



Year	2004-2007 Application		2008 Application	
	Allocation to Customers		Allocation to Customers	
	DTS	STS	DTS	STS
2008	\$0.2	–	–	–
2007	0.5	–	(0.5)	–
2006	2.0	–	(2.0)	–
2005	0.6	0.6	(0.6)	(0.6)
2004	(1.3)	1.4	1.3	(1.4)
2003	1.0	(2.7)	(1.0)	2.7
2002	(0.0)	(2.3)	0.0	2.3
Total	\$2.9	(\$2.9)	(\$2.7)	\$2.9

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Removal of Interest Redistribution
(cont'd) Table 2-4, Page 18




Allocation of Removed Interest to DTS Customers, \$ 000 000

Year	Inter-connection	Operating Reserve	Voltage Control	Other System Support	Total DTS
2007	(\$0.5)	–	–	–	(\$0.5)
2006	(0.9)	(1.9)	0.9	–	(2.0)
2005	(0.6)	(0.0)	–	0.0	(0.6)
2004	0.9	0.4	–	(0.0)	1.3
2003	(1.0)	0.0	–	(0.0)	(1.0)
2002	–	–	–	–	–
Total	(\$2.0)	(\$1.6)	\$0.9	\$0.0	(\$2.7)

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Removal of Interest Redistribution
(cont'd) Table 2-4, Page 18




Allocation of Removed Interest to STS Customers, \$ 000 000

Year	Inter-connection	Losses	Operating Reserve	Total STS
2007	–	–	–	–
2006	–	–	–	–
2005	(0.5)	(0.2)	(0.0)	(0.6)
2004	0.7	(2.5)	0.4	(1.4)
2003	(0.7)	3.3	0.0	2.7
2002	–	2.3	–	2.3
Total	(\$0.5)	\$3.0	\$0.4	\$2.9

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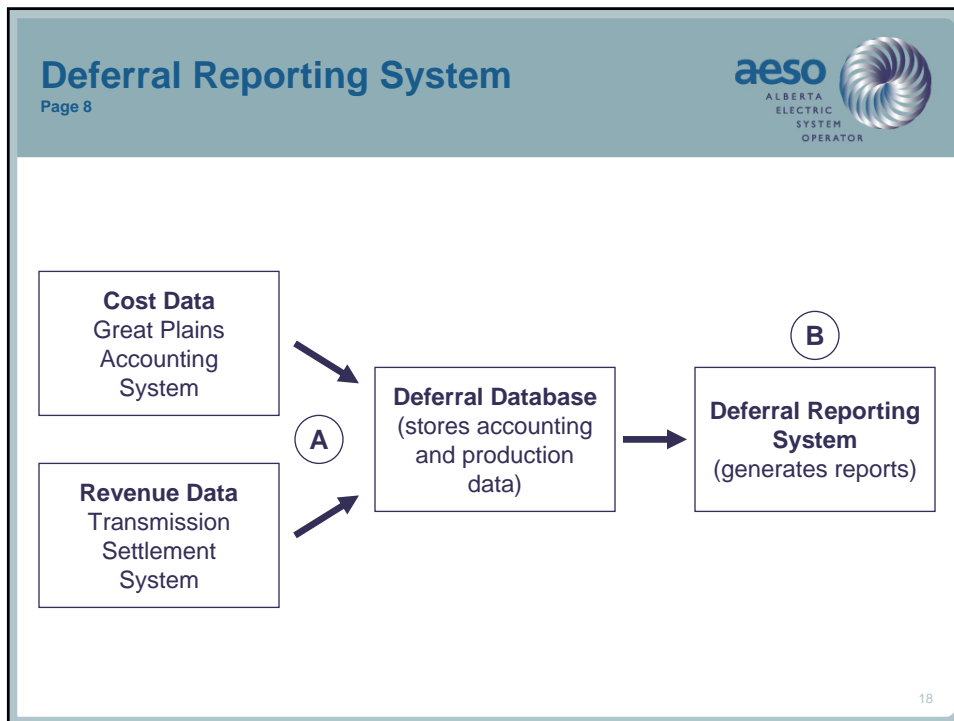
Deferral Account Balances
Table 2-7, Page 23



Surplus (Shortfall), \$ 000

Year	Inter-connection	Losses	Operating Reserve	Voltage Control	OSS Services	Total
2008	(\$7,772)		\$2,337	\$327	\$471	(\$4,637)
Adjustments Since 2004-2007 Reconciliation						
2007	2,542		39	(4,018)	3	(1,434)
2006	939		1,950	3	(882)	2,010
2005	1,158	171	76		(27)	1,377
2004	(1,586)	2,444	(751)		5	112
2003	1,682	(3,341)	17		19	(1,623)
2002	39	(2,290)	23		-	(2,228)
2001	27	6	13		-	46
Total	(\$2,971)	(\$3,011)	\$3,705	(\$3,688)	(\$410)	(\$6,376)

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Deferral Reporting Controls

Page 24



- Input controls (A)
 - Data transferred into database reconciles to source data
 - All accounting values are assigned to production months (value rejected if production month not entered)
- Process controls (B)
 - Detailed report totals reconcile to summary reports
 - Annual deferral account balances (revenues and costs) reconcile to audited financial statements
 - Customer revenues and loss volumes reconcile to billing data
 - Inter-year adjustments for production month reporting net to zero
 - Calculations embedded in reporting system have been manually tested and verified in detail

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Deferral Account Reconciliation Methodology



- Deferral account balance is actual costs less actual revenue
- Deferral account balances reconciled and allocated on a production month basis for each year since 2003
 - Adjustments for 2001 and 2002 allocated using previously-approved (“frozen”) allocators based on revenue
- Deferral account balances allocated to customers before Rider C and prior reconciliation amounts
 - Effectively “unwinding” prior cash flows to determine new balances by rate and rate category for each customer
 - Quarterly Rider C maintains deferral account balances at reasonable levels by collecting or refunding amounts prior to annual reconciliation

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Amounts Included in 2008 Deferral Account Reconciliation

Pages 12-14



- Data cut-off date of December 31, 2008
 - Preparation of 2008 application began in February 2009
 - Minimal effect on load customers from changes to transmission billing volumes between initial, interim, and final settlements
- For transmission system losses, only includes revenue and cost adjustments prior to January 2006
 - Starting January 1, 2006, transmission system losses are no longer subject to retrospective reconciliation
 - For 2006, 2007, and 2008, losses variances are recovered through Calibration Factor Rider E

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Amounts Not Included in 2008 Deferral Account Reconciliation

Page 14



- 2009 Q1 Rider C amounts do not apply to 2008
 - 2008 year-end balances carried forward to be settled through deferral account reconciliation
- Cost and revenue adjustments after December 31, 2008 are not included in 2008 application
- Net \$3.0 million shortfall related to 2008 and prior years has occurred since December 2008
 - \$1.8 million net interconnection charge shortfall due to \$1.5 million wires cost increase and \$0.3 million revenue decrease
 - \$1.3 million voltage control charge shortfall due to TMR cost increase
 - \$0.1 million operating reserve charge surplus due to operating reserve cost decrease

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Cost Variances

Pages 28-40



- All costs recorded in revenue requirement categories as approved in General Tariff Application forecast
- All costs assigned to production months in accounting system
 - Except AESO “Own Costs” assigned to months in which they occur
- Variances determined as differences between approved forecast and actual costs by revenue requirement category
 - Deferral account application is proper venue to test the AESO’s cost prudence
- Detailed questions on variance analysis should be addressed through information request process

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Revenue Variances

Pages 41-42




- All revenue recorded by rate and rate component
- All “base rate” revenues assigned to production months in billing system
- Variances determined as differences between forecast and actual “base rate” revenue by rate and rate component
 - Forecast revenue calculated from rates in effect in each month times the forecast billing determinants for the month (excluding Rider C revenue)

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Deferral Account Balances

Pages 42-43




- Deferral account balance is actual costs less actual revenue
 - Equivalent to net of cost variances less revenue variances as long as forecast costs equaled forecast revenues, which is not true for 2007 and 2008
- Information provided on all significant cost and revenue variances for 2008 first reconciliation
- Similar information provided for 2004-2007 second reconciliations and 2003 third reconciliation, but only considered variances arising subsequent to those reconciliations filed in June 2008
- Only considered adjustments to revenues and costs for 2001 and 2002, not full re-reconciliation

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Summary of Deferral Accounts,


\$ 000 000

Table 2-5, Page 20



	2008	2007	2006	2005	2004
Interconnection	\$494.3	\$478.7	\$467.0	\$431.5	\$381.0
Losses	–	–	–	180.7	138.4
Operating Reserve	183.5	145.9	173.5	217.3	236.3
Voltage Control	52.1	52.8	52.3	–	–
Other System Support	8.3	8.0	7.9	2.4	2.2
Total Revenue	\$738.1	\$685.5	\$700.6	\$831.9	\$757.9
Wires	(\$501.1)	(\$457.2)	(\$434.3)	(\$428.7)	(\$390.5)
Ancillary Services	(312.4)	(236.7)	(233.0)	(189.7)	(123.7)
Losses	–	–	–	(196.1)	(145.6)
Other Industry	(11.5)	(4.8)	(3.6)	(5.3)	(5.0)
General & Admin	(51.3)	(44.3)	(31.4)	(30.3)	(26.3)
Total Costs Paid	(\$876.3)	(\$743.0)	(\$702.3)	(\$850.1)	(\$691.0)
Surplus (Shortfall)	(\$138.2)	(\$57.6)	(\$1.7)	(\$18.2)	\$66.9

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		2003	2002	2001
<p>Summary of Deferral Accounts, \$ 000 000 (cont'd) <small>Table 2-5, Page 20</small></p> 				
Interconnection		\$393.5	\$0.0	\$0.0
Losses		216.6	0.0	0.0
Operating Reserve		237.9	0.0	0.0
Voltage Control		-	-	-
Other System Support		2.2	0.0	0.0
Total Revenue		\$850.2	\$0.1	\$0.0
Wires		(\$358.1)	-	-
Ancillary Services		(177.4)	-	-
Losses		(156.2)	(0.0)	(0.0)
Other Industry		(9.3)	-	-
General & Admin		(29.4)	(2.3)	-
Total Costs Paid		(\$730.3)	(\$2.3)	(\$0.0)
Surplus (Shortfall)		\$119.9	(\$2.2)	\$0.0

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Production Year		Variance Explanation Threshold
2008	First Reconciliation	<ul style="list-style-type: none"> • ±\$5.0 million variance, or • at least ±\$0.5 million and at least ±10% of forecast
2007	Second Reconciliation (half of first)	<ul style="list-style-type: none"> • ±\$2.0 million variance, or • at least ±\$0.2 million and at least ±5% of forecast
2006 2005 2004	Second Reconciliation (half of first)	<ul style="list-style-type: none"> • ±\$1.5 million variance, or • at least ±\$0.15 million and at least ±5% of forecast
2003	Third Reconciliation (one-third of first)	<ul style="list-style-type: none"> • ±\$1.0 million variance, or • at least ±\$0.1 million and at least ±3% of forecast
2002	No specific threshold for variance explanations established	
<p><i>First reconciliation explanation thresholds are based on about 10% of each year's general and administrative costs component of the AESO's revenue requirement</i></p>		

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Summary of Significant Cost Variances		
Year	Component	Variance Description
2008	Wires	<ul style="list-style-type: none"> • ATCO Electric isolated generation credit: \$3.3 million (33%) less than forecast due to inappropriate basis for forecast credit • EPCOR wires: \$7.5 million (20%) more than forecast due to final TFO tariff approved in AUC Decision 2008-125 • KEG unit transformers conversion: \$3.3 million (not forecast) due to directions included in Decision 2008-101

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2008	Ancillary Services	<ul style="list-style-type: none"> • Operating reserves: \$47.2 million (22%) above forecast primarily due to more high pool price periods in 2008 and a trend of smaller discounts relative to pool price • Brazeau fast ramp: \$0.6 million or 83% less than forecast due to contract expiry during 2008 • Under frequency mitigation: \$1.0 million (20%) less than forecast due to contracted MW levels being lowered as a result of a change in operations at service providers' facilities • ILRAS: \$0.8 million (99%) less than forecast due to ILRAS being utilized only for supply shortfall conditions

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2008	Other Industry	<ul style="list-style-type: none"> External regulatory costs: \$3.3 million (81%) less than forecast due to delay of some proceedings and oral hearings not being required for others Share of AUC costs: \$6.1 million (242%) more than forecast due to changes in AUC cost recovery model

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2008	General and Admin	<ul style="list-style-type: none"> Consultants: \$2.0 million (35%) more than forecast due to utilization of consultants on several projects Other administrative: \$1.8 million (75%) more than forecast primarily due to increased costs related to public education and consultation and increased costs for recruiting Interest: \$0.8 million (46%) less than forecast due to reduced borrowing rates and the large deferral account surplus held until July 2008 Amortization and depreciation: \$1.4 million (24%) less than forecast primarily due to purchasing or commissioning of assets being completed in the last few months of the year

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2008	Capital	<ul style="list-style-type: none"> • Calgary Place office renovations: \$0.7 million (not forecast) due to unanticipated electrical and construction work and higher than forecast material costs • EMS upgrade: \$6.2 million not included in 2008 forecast and presented to stakeholders during 2008 after development of multi-year project to be completed in 2010 • Dispatch tool re-architecture: \$1.2 million (not forecast) due to unanticipated requirements for architecture improvements

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2007	Wires	<ul style="list-style-type: none"> • EPCOR wires: \$2.2 million (6%) less than forecast due to final TFO tariff approved in AUC Decision 2008-125
2007 to 2004	Ancillary Services	<ul style="list-style-type: none"> • TMR service: adjustments for unforeseeable TMR service in accordance with Decision 2008-014 <ul style="list-style-type: none"> – 2008: \$0.0 million (Jan 1 – Feb 12, 2008) – 2007: \$4.5 million – 2006: \$0.0 million – 2005: \$0.5 million – 2004: <u>\$0.4 million</u> (December 17–31, 2004) – Total: \$5.4 million
2007 to 2002	General and Admin	<ul style="list-style-type: none"> • Interest expense: removal of redistribution of interest proposed in 2004-2007 application, as discussed earlier in presentation

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2008 Deferral Account Summary
Table 3-3, Page 43



Demand Transmission Service	Forecast \$ 000 000	Recorded \$ 000 000	Variance	
			\$ 000 000	%
Total Revenue	\$736.4	\$738.1	\$1.7	0.2%
Total Costs	(810.2)	(876.3)	(66.0)	8.2%
Surplus (Shortfall)	(\$73.8)	(\$138.2)	(\$64.3)	87.1%
Rider C Collection	–	133.5	–	–
Net Surplus (Shortfall)	(\$73.8)	(\$4.6)	\$69.2	(93.8%)

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**Summary of Deferral Account
Balances After Rider C, \$ 000 000**
Table 2-5, Page 20



	2008	2007	2006	2005	2004
Total Revenue	\$738.1	\$685.5	\$700.6	\$831.9	\$757.9
Total Costs Paid	(876.3)	(743.0)	(702.3)	(850.1)	(691.0)
Surplus (Shortfall)	(\$138.2)	(\$57.6)	(\$1.7)	(\$18.2)	\$66.9
Rider C Collection	133.5	58.1	15.1	18.7	(72.1)
Prior Reconciliation	–	(2.0)	(11.3)	0.9	5.3
Net Surplus (Shortfall)	(\$4.6)	(\$1.4)	\$2.0	\$1.4	\$0.1

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Summary of Deferral Account Balances After Rider C, \$ 000 000 <small>(cont'd) Table 2-5, Page 20</small>			
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Total Revenue	\$850.2	\$0.1	\$0.0
Total Costs Paid	(730.3)	(2.3)	(0.0)
Surplus (Shortfall)	\$119.9	(\$2.2)	\$0.0
Rider C Collection	(158.0)	-	-
Prior Reconciliation	36.4	-	-
Net Surplus (Shortf'l)	(\$1.6)	(\$2.2)	\$0.0

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- | Allocation to Customers
<small>Pages 95-97</small> | |
|---|--|
| <ul style="list-style-type: none"> • Deferral account balances allocated to customers by rate and rate component • For wires, ancillary services, other industry, and general and administration costs, allocation based on revenue • For losses, allocation based on volumes times pool price • 2001 and 2002 adjustments allocated using final allocators approved by AUC for those years (“frozen” allocators) • Rider C amounts applied after deferral account balances allocated to customers | |

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Individual Customer Amounts

Pages 95-97 and Appendices H-L



- Rider C amounts charged or refunded to customers over the period were applied on an individual customer basis to determine the net amount to be refunded to or collected from the customer
- Detailed allocation was provided in appendices to application
- Customers and generators were assigned random numbers in each year to protect confidentiality
 - Number codes have been provided to each customer
- Similar information has been provided on request in Excel format at settlement point level, for customers with multiple settlement points

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Billing of Customer Amounts

Pages 96-97



- Where a System Access Service Agreement is assigned (through Assignment and Novation), the deferral account allocation is to the account of the assignee
 - Effective in 2002 and later years
 - Assignees have been determined as of March 31, 2009 when reports were finalized
- GST will be applied at current rate of 5%

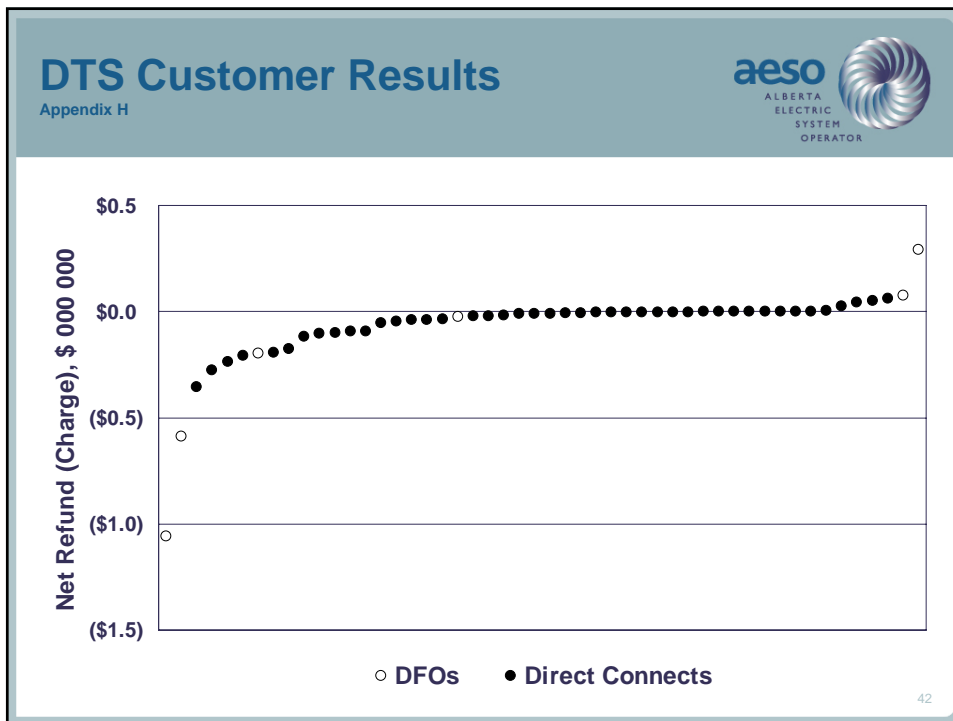
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DTS and STS Customer Results


Table 11-1, Page 99

Range	Number of Customers		Total Amount, \$ 000 000		
	DTS	STS	DTS	STS	Total
Refund > \$100,000	1	-	\$0.3	-	\$0.3
Refund \$0 – \$100,000	10	11	0.3	0.1	0.3
Subtotal Refunds	11	11	\$0.6	\$0.1	\$0.6
Charge \$0 – \$100,000	28	23	(0.6)	(0.4)	(1.1)
Charge \$100,000 – \$500,000	9	6	(1.9)	(1.8)	(3.7)
Charge \$500,000 – \$1,000,000	1	1	(0.6)	(0.6)	(1.2)
Charge > \$1,000,000	1	-	(1.1)	-	(1.1)
Subtotal Charges	39	30	(\$4.2)	(\$2.8)	(\$7.0)
Total Refunds and Charges	50	41	(\$3.6)	(\$2.8)	(\$6.4)

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- ### Refunding and Collecting
- Pages 98-99
- 
- Settlement through one-time payment and collection
 - In case of financial burden, 3-month payment option available
 - AESO proposed interim refundable settlement as soon as possible
 - Settlement in June if approval received by mid-June
 - Subject to adjustment in final decision on deferral account reconciliation application, expected in late 2009
 - AESO suggests any adjustments be included in 2009 deferral account reconciliation application, to be filed in second quarter of 2010
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Application Review Process



- Filed application on April 9, 2009
- Technical meeting on May 4, 2009
- Statements of intent to participate due on May 6, 2009
- Information requests to AESO in late May 2009
- IR responses from AESO in mid-June 2009
- No party requested an oral hearing for prior DAR applications
 - Assume no intervenor evidence, IRs to intervenors, rebuttal evidence, or second round of IRs
- Argument and reply argument in July 2009
- Decision in late October 2009

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Next Steps



- Further consultation on Riders B and C as part of 2010 tariff consultation
 - Working group to be finalized by May 6, 2009
- AESO is investigating option to provide settlement point report information as a CSV file in same format as TSS bill file
 - If possible, would be implemented for 2009 deferral account reconciliation to be filed in the second quarter of 2010

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Discussion and Questions



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For More Information



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Tariff ► Current Applications ► 2008 Deferral Account
Reconciliation

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