



June 5, 2009

Posted on AESO website

Deferral Account Riders B and C Working Group Members
AESO Stakeholders

Dear Working Group Member:

Re: Meeting Agenda for Deferral Account Riders B and C Working Group

The first meeting of the Deferral Account Riders B and C Working Group for the AESO's 2010 tariff application is scheduled as follows:

Time: 10:00 AM to 12:00 Noon
Date: Monday, June 8, 2009
Location: Meeting Room 2506, AESO Office, 330 – 5th Avenue SW, Calgary
Refreshments: Coffee, juice, and pastries

This working group includes the following members:

- ADC: Colette Kearn
- ATCO Electric: Nick Palladino
- EPCOR: Stan Yee
- FortisAlberta: Monica Huynh
- IPCAA: Vittoria Bellissimo
- UCA: Rick Cowburn
- AESO: John Martin and Carol Moline

If you intend to participate in the meeting by conference call, are unable to attend the meeting, or will be represented by an alternate, please let me know as soon as possible.

The agenda for the meeting is proposed to include the following items:

- | | | |
|---|--|----------|
| 1 | Introductions | 10:00 AM |
| | <ul style="list-style-type: none">• Please indicate which stakeholders you represent | |
| 2 | Review agenda | 10:10 AM |
| 3 | Review draft working groups terms of reference | 10:15 AM |
| | <ul style="list-style-type: none">• See enclosed document originally posted on April 22, 2009• The AESO proposes to revise section 3 of the draft terms of reference by updating the first bullet point and adding an additional bullet point, as follows:<ul style="list-style-type: none">– Each Working Group will generally have a maximum of six to eight members (including AESO employees and consultants). No more than six stakeholder members will generally be on any one Working Group. | |

► Current Consultations ► 2010 Tariff. The AESO appreciates stakeholders' participation in this consultation.

If you have any comments or questions on this consultation process or the AESO's tariff application, please contact me at 403-539-2465 or john.martin@aeso.ca, or Carol Moline at 403-539-2504 or carol.moline@aeso.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

enclosures

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

AESO 2010 Tariff Consultation Working Groups Terms of Reference

1 Purpose

The AESO 2010 Tariff Consultation Working Groups will be forums for stakeholders to provide perspective, advice, and expertise to the AESO on specific topics for the AESO's 2010 tariff application. The Working Groups are intended to augment the internal capabilities of the AESO and support effective consultation by engaging stakeholders in the development of the tariff application.

2 Topics

Working Groups are proposed to examine the following topics for the AESO's 2010 tariff application. Some issues are suggested for exploration within each topic, although each Working Group is expected to determine what issues should be examined for each topic.

- (a) **POD Cost Function and Investment Level Update**
 - Substations included in POD cost data set
 - Inflation index to escalate POD cost data to 2010
 - Multiplier to determine investment level
- (b) **TFO O&M Cost Causation Study**
 - Respond to AUC directions on analysis of TFO O&M costs
 - Determine if TFO O&M costs are energy-related
 - Determine if TFO O&M costs should be functionalized similarly to capital costs
- (c) **DTS Operating Reserve Charge Design**
 - Methodology to analyze and assess design of operating reserve charge
 - Criteria for selection of appropriate design for operating reserve charge
- (d) **Fort Nelson Rate FTS**
 - Rate design principles for Fort Nelson and similar services
 - Cost allocation approaches between BC and Alberta loads in the Rainbow Area
 - Contractual considerations for Fort Nelson and similar services
- (e) **Export and Import Rates XTS and ITS**
 - Rate design principles for higher-priority export and import services
 - Similarities and differences between domestic and intertie services
 - Potential allocation of "deep system" costs to services over merchant interties
- (f) **Deferral Account Riders B and C**
 - Rate design principles for deferral account riders
 - Practicality of improving allocation accuracy of deferral account riders
 - Possible integration of Riders B and C

- (g) **Tariff Changes Related to Transition of Authoritative Documents (TOAD)**
- Provisions that could be moved from tariff to other authoritative documents (such as technical standards or ISO Rules)
 - Common provisions that could be standardized and consolidated
 - Dispersed information that could be consolidated
- (h) **Amortized Customer Contribution Option and Other Contribution Provisions**
- Potential changes to AESO standard facilities definition
 - Potential provisions for amortized customer contribution option
 - Assessment of credit-worthiness and mitigation of risk of default
- (i) **Tariff Provisions Related to Customer-Owned Substations**
- Principles for tariff provisions at customer-owned substations
 - Assessment of Primary Service Credit and associated investment factor
 - Application of substation fraction at customer-owned substations

3 Working Group Members

The Working Groups will consist of AESO stakeholders and AESO employees with interest, expertise, or both in the specific topic being examined in each Working Group.

- Each Working Group will have a maximum of four to six members (including AESO employees). No more than four stakeholder members will be on any one Working Group.
- Stakeholder involvement in a Working Group is voluntary. Membership will generally be on a first come, first served basis.
- Stakeholders may coordinate involvement in different Working Groups among themselves to avoid duplication and overlap of interest.
- The AESO may suggest changes to the composition of individual Working Groups to ensure diversity and balanced representation of views.

4 Duration

Each Working Group will be active from May 1, 2009 to no later than mid-July 2009.

- A Working Group may conclude activities earlier if no further review of the topic would be helpful to the AESO's 2010 tariff application.
- A Working Group may also continue activities for a longer period if an extension is required to effectively satisfy its purpose.

5 Scope and Duties

Working Groups will review and discuss options and alternatives for proposals being considered for inclusion in the AESO's 2010 tariff application. Working Groups are not decision-making bodies. Consultation within Working Groups will not replace general stakeholder consultation. The AESO will consider consultation within the Working Groups in the context of its broader stakeholder consultation.

- (a) Working Groups will determine their own meeting dates and times. Meetings are expected to occur about every two weeks, for one to two hours. Meeting agendas will be prepared and communicated in advance as much as practical. Members may participate in meetings via conference call. A Working Group will generally be coordinated and chaired by an AESO employee. Meetings may be held at the office of the AESO or of other Working Group participants.
- (b) Working Group members are expected to dedicate appropriate time to actively participate in Working Group meetings, to review material prior to meetings, and to address questions raised and issues identified following the meetings. Working Group members may assign work to others within their organizations with appropriate technical or regulatory expertise on the topic.
- (c) Working Group members are expected to engage in informal open discussion on a “without prejudice” basis. Although discussion in Working Groups will not be presented as evidence in the AESO’s tariff application proceeding, the AESO and participants may refer in their respective evidence to any conclusions they reach as a result of Working Group discussion. A participant or representative on any Working Group will not be precluded from participating in the AESO’s tariff application proceeding before the AUC. Neither stakeholders nor the AESO will be limited in any way from expressing views that may differ from those expressed in the Working Group. However, all participants are expected to engage in meaningful and transparent dialogue in the Working Groups.
- (d) The activities of the Working Groups and related written documents will be communicated to stakeholders through postings on the AESO website, as appropriate. However, minutes of discussion and transcripts of conversations will not generally be prepared. All material will be assumed to be non-confidential unless identified otherwise. All such material will be available on the AESO website at www.aeso.ca by following the path Tariff ► Current Consultations ► 2010 Tariff. All stakeholders will generally have opportunity to comment on the material posted, as part of comment processes in the AESO’s general stakeholder consultation.
- (e) Working Group conclusions will be considered by the AESO in developing proposals for its 2010 tariff application. The AESO’s 2010 tariff application will reflect decisions consistent with legislation, policy, and the AESO’s mandate, considering the input and advice provided by the Working Groups. The rationale for the AESO’s proposals will be included in the tariff application.

6 Deliverables

The AESO 2010 Tariff Consultation Working Groups will provide the following.

- (a) Advice and expert comments on specific topics being considered as part of the AESO’s 2010 tariff application.
- (b) Suggestions to improve the studies, analysis, rates, and terms and conditions that will comprise the AESO’s 2010 tariff application.

- (c) Identification of legislation, policy, prior regulatory decisions, principles, precedent, and practices that are relevant to the topic being examined by the Working Group.

7 Principles

The activities of the AESO 2010 Tariff Consultation Working Groups will be consistent with the AESO's mandate to prepare a tariff that is just and reasonable, and that is not unduly preferential, arbitrarily or unjustly discriminatory, or inconsistent with or in contravention of any applicable law.

Working Groups will consider topics in the context of an overall Alberta perspective that will improve the fairness, efficiency, clarity, and consistency of the AESO's tariff.

8 Expenses

Working Group members are responsible for their own out-of-pocket expenses and time for participating in Working Group activities. The AESO will not reimburse participants for costs incurred due to involvement on a Working Group.

9 Recent AESO Tariff Decisions

Members of the Working Groups should, at a minimum, be familiar with discussion of the topic in recent AESO tariff decisions, which are listed below for convenience.

- AUC Decision 2008-037: AESO 2007 General Tariff Application Refiling (released on May 8, 2008)
- EUB Decision 2007-106: AESO 2007 General Tariff Application (released on December 21, 2007)
- EUB Decision 2005-132: AESO Review and Variation of Customer Related POD Charge (released on December 6, 2005)
- EUB Decision 2005-131: AESO Refiling of 2005/2006 General Tariff Application per Decision 2005-096 (released on December 6, 2005)
- EUB Decision 2005-096: AESO 2005/2006 General Tariff Application (released on August 28, 2005)



Rider B **Working Capital Deficiency/Surplus Rider** Page 1 of 1

Purpose: The Working Capital Deficiency/Surplus Rider is to recover unexpected increases in the AESO's working capital deficiency or to refund unexpected surpluses of working capital.

Applicable to: Customers receiving service under the following Rate Schedules:

- DTS
- FTS

Effective: The rider will be invoked for the current Billing Period when, on the last Business Day of the current Billing Period:

- the AESO's working capital balance either exceeds or falls short of the AESO's annual average forecast by an amount equal to or greater than \$7.0 Million.

Rate: A percentage increase or decrease, that when invoked will restore the AESO's working capital deficiency to the AESO's annual average forecast, applied to charges under the rate schedules listed above in the current Billing Period.

Terms: The Terms and Conditions form part of this Rate Schedule.



Rider C **Deferral Account Adjustment Rider** Page 1 of 1

Purpose: To recover or refund all accumulated deferral account balances.

Applicable to: Customers receiving service under the following Rate Schedules:

- DTS
- FTS

Effective: The rider is effective for all billing periods, effective January 1, 2006.

Rate: An additional \$/MWh charge or credit will be applied to each of the following:

DTS Rate Schedule

- Interconnection Revenue Category
- Operating Reserve Revenue Category
- Voltage Control Revenue Category
- Other Ancillary Services Revenue Category

FTS Rate Schedule

- Interconnection Revenue Category
- Operating Reserve Revenue Category
- Voltage Control Revenue Category
- Other Ancillary Services Revenue Category

to 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.

Terms: The Terms and Conditions form part of this Rate Schedule.



AESO Quarterly Rider C For Q2 2009

The following table provides a summary of the AESO's forecasted deferral account balance at June 30, 2009 and the Q2 2009 Rider C rate. The actual January to February 2009 and estimated deferral account balances for March 2009 and Q2 2009 are summarized as follows:

(\$ millions)	Revenues Collected DTS	(Costs Paid) DTS	Variance February 2009 YTD DTS	Rider 'C' Collected (Refunded) YTD February 2009 DTS	Total Variance - Overcollected/ (Undercollected) DTS
January to February 2009 Actual					
Operating reserve charge ⁽¹⁾	23.0	(27.2)	(4.2)	16.2	12.0
Interconnection charge ⁽²⁾	86.2	(98.0)	(11.8)	6.0	(5.8)
Other system support services charge ⁽³⁾	1.4	(0.7)	0.7	(0.4)	0.3
Voltage Control ⁽⁴⁾	8.4	(3.8)	4.6	(2.0)	2.6
YTD February 2009 Deferral Amount ⁽⁵⁾	119.0	(129.7)	(10.7)	19.8	9.1
March 2009 Estimate					
	Estimated Revenues DTS	(Estimated Costs) DTS	Variance March 2009 Estimate DTS	Rider 'C' Collected (Refunded) March 2009 DTS	Total Variance - Overcollected/ (Undercollected) DTS
Operating reserve charge ⁽¹⁾	6.4	(4.0)	2.3	8.4	10.8
Interconnection charge ⁽²⁾	48.9	(49.1)	(0.3)	3.1	2.8
Other system support services charge ⁽³⁾	0.7	(0.6)	0.2	(0.2)	(0.0)
Voltage Control ⁽⁴⁾	4.4	(3.2)	1.2	(1.0)	0.1
Estimated March 2009 Deferral Balance	60.3	(56.9)	3.4	10.3	13.7
Q2 2009 Estimate					
	Estimated Revenues DTS	(Estimated Costs) DTS	Variance Q2 2009 Estimate DTS	Rider 'C' Collected (Refunded) Q2 2009 ⁽⁵⁾ DTS	Total Variance - Overcollected/ (Undercollected) DTS
Operating reserve charge ⁽¹⁾	25.3	(57.8)	(32.5)	-	(32.5)
Interconnection charge ⁽²⁾	145.1	(147.9)	(2.8)	-	(2.8)
Other system support services charge ⁽³⁾	2.1	(1.7)	0.5	-	0.5
Voltage Control ⁽⁴⁾	12.1	(9.6)	2.6	-	2.6
Estimated Q2 2009 Deferral Ending Balance	184.7	(217.0)	(32.3)	-	(32.3)
Total Estimated YTD Deferral Balance at Q2 2009					
January to February 2009 Actual and March 2009 and Q2 2009 Estimated	Estimated Revenues DTS	(Estimated Costs) DTS	Variance Q2 2009 Estimate DTS	Estimated Rider 'C' Collected (Refunded) as of Q2 2009 DTS	Total Variance - Overcollected/ (Undercollected) DTS
Operating reserve charge ⁽¹⁾	54.7	(89.1)	(34.4)	24.6	(9.8)
Interconnection charge ⁽²⁾	280.2	(295.0)	(14.8)	9.1	(5.7)
Other system support services charge ⁽³⁾	4.3	(2.9)	1.4	(0.6)	0.8
Voltage Control ⁽⁴⁾	24.9	(16.6)	8.3	(3.0)	5.3
Estimated Deferral Balance at Q2 2009	364.1	(403.6)	(39.6)	30.1	(9.5)

Numbers may not add due to rounding



1. Operating Reserve charges
 - Effective January 1, 2006 Operating reserve charges are allocated 100% to DTS customers. The costs include Operating Reserves, Generator Remedial Action Schemes, and Black Start.
2. Interconnection charges
 - Effective January 1, 2006 Interconnection charges are allocated 100% to DTS customers. Interconnection charges include Wires, ILRAS, Other Industry and G & A. Revenues collected from rate schedules other than DTS have been included in revenues collected from Interconnection charges.
3. Other System Support Services charges are allocated 100% to DTS customers.
4. Effective January 1, 2006 Voltage Control (Transmission Must Run) costs are allocated 100% to DTS customers.
5. Q2 2009 forecasted Rider C collections (refunds) have not been incorporated this table.

DTS Customers: In Q2 2009, a Rider C net adjustment of \$0.72 per MWh will be added to the DTS rates as a charge. [\$(9.5) million (YTD Q2 2009 estimated total variance) / (13,054GWh for Q2 2009) = \$0.72 per MWh]

Rider C Rates for Q2 2009	\$/MWh DTS	DTS Q2/09 GWh
Operating Reserve	\$ 0.75	13,054
Interconnection Charge	\$ 0.44	
Other System Support Services Charge	\$ (0.06)	
Voltage Control	\$ (0.41)	
Total charge (refund)	\$ 0.72	

The analysis of the forecasted deferral account balances are the AESO's best estimate of the costs and revenues based on the information available at the time that this summary was prepared. This information is an estimate only and may not represent the actual costs incurred and revenue collected.

Note - All references to DTS customers or rate schedules include FDS.

**Additional Discussion on
Future Deferral Account
Matters**



Information on Future Rate Applications



- AESO preparing to file 2009 rates update information
 - Updated rates expected to be effective mid-2009
- Average rate increase expected to be about 18%
 - Goal is to reduce deferral account amounts dealt with through Rider C
- AESO proposing change to DTS operating reserve charge in 2010 tariff application
 - Planned to be filed in Q3 2009, with rates effective in Q3 2010
- Proposed operating reserve charge will better match costs on monthly basis and reduce deferral account balances
- Changes may allow consideration of prospective Rider C

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Review of Rider C Practices



- Change to practices generally do not require tariff approval
- Seeking stakeholder comments
- Consideration of deferral account balance thresholds above which practice may be revised

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Exclusion of Year-End Balances From Q1 Rider C



- Prior to 2009, all Q1 Rider C amounts were calculated to recover prior year-end balance and Q1 forecast amount
- For 2009 Q1 Rider C, AESO calculated it to include Q1 forecast amount only

Include Year-End Balance	Exclude Year-End Balance
Cannot begin reconciliation until after Q1 ends (May)	Can begin reconciliation after year-end (February)
Year-end balance recovered earlier (Feb-Apr)	Year-end balance recovered later (May with interim settlement or late in year with final settlement)
Rider C recovery subject to change in reconciliation	Recovery through reconciliation comparatively final

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Exclusion of Prior-Year Balances From Quarterly Rider C



- Since 2004, Rider C amounts have been calculated to recover current year balances only (except Q1 which includes prior Q4 year-end balances)
- Prior-year amounts (except for Q4's inclusion in Q1 Rider C) are recovered through deferral account reconciliations

Include Prior-Year Amounts	Exclude Prior-Year Amounts
Misalignment between customers and variances	Full alignment of customers and variances by production month
Prior-year amounts recovered earlier (in year of transaction)	Prior-year amounts recovered later (in year following transaction)
Rider C recovery subject to change in reconciliation	Recovery through reconciliation comparatively final

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Alternatives to Full Reconciliations



- When can full reconciliations of deferral account balances be stopped?
 - Under full reconciliation, variances allocated to customers on most current customer revenue
- Currently application includes full reconciliations for six years (2003 to 2008)
 - Only two most recent years have deferral account balances greater than $\pm\$0.1$ million (excluding removal of interest redistribution)
 - Total adjustments for 2003 through 2006 only \$0.26 million (excluding removal of interest redistribution)
- Consideration of materiality thresholds below which full reconciliation would not be completed

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1. “Frozen Allocators” Alternative



1. Create annual allocators based on second or third reconciliation or on most recent approval after some threshold is reached
 - All subsequent adjustments allocated by annual frozen allocators
 - Similar to approach for 2002, which has been “frozen” since 2003 deferral account reconciliation
 - Monthly frozen allocators not materially simpler than full reconciliation

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2. “Permanent Termination” Alternative



2. Permanently discontinue both full reconciliations and reconciliations of adjustments after second or third reconciliation or after some threshold is reached
 - All subsequent adjustments “rolled up” into “oldest” reconciliation that is not yet terminated
 - Don’t reopen closed-year reconciliations

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3. “Indefinite Termination” Alternative



3. Temporarily terminate full reconciliations and reconciliations of adjustments after second or third reconciliation or after some threshold is reached, but re-open for material adjustments above some threshold
 - For immaterial adjustments, “roll up” adjustments into “oldest” reconciliation that is not yet terminated
 - For material adjustments, reverse “rolled-up” adjustments and re-reconcile year in which material adjustment occurred
 - Reversal of “rolled-up” adjustments may prevent roll-up of year which would otherwise have happened
 - How should “rolled-up” adjustments be allocated to customers in destination year?


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Indefinite Termination Example



Production Year	2009 Deferral Account Reconciliation Application	2010 Deferral Account Reconciliation Application	
		No Material Adjustments Prior to 2008 Production Year	Material Adjustment in 2004 Production Year
2010		Full reconciliation	Full reconciliation
2009	Full reconciliation	Full reconciliation	Full reconciliation
2008	Full reconciliation	Full reconciliation	Full reconciliation
2007	Full reconciliation	Roll into 2008	Full reconciliation
2006	Roll into 2007		Roll into 2007
2005			
2004			Full reconciliation
2003			
2002			
2001			Roll into 2004

Materiality Thresholds



- Minimum of three full reconciliations
 - Still necessary?
- Cost adjustment not considered material if less than $\pm 1\%$ of AESO revenue requirement
 - About $\pm \$10$ million for 2009
- Revenue adjustment not considered material if individual customer impact of deferral account reconciliation is less than $\pm \$50,000$

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Deferral Account Rider C Changes



- Rider C changes would require tariff approval
- Rider C purpose is “to restore the deferral account balances to zero over the following calendar quarter”
- Requires forecasting of the upcoming quarter
 - For example, must forecast Q1 variance to determine Q1 Rider C
- Alternatively, could use only actual variances
 - May decrease Rider C variability
 - May cause AESO to hold surpluses and finance shortfalls longer
- Alternatively, could address variances over remaining months in calendar year, as opposed to next quarter
 - Similar to Rider E approach

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Deferral Account Rider B Changes



- Rider B changes would require tariff approval
- Rider B purpose is to recover unexpected deficiencies or refund unexpected surpluses of working capital
- Currently available only as a “percentage increase or decrease...applied to charges under the rate schedules...in the current Billing Period”
- Revise to allow for more specific implementation
 - By rate component
 - By MWh (like Rider C)
- Potentially possible to modify Rider C to accommodate Rider B purpose

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Next Steps



- Further consultation on rider practices and rider changes?
 - As part of 2010 GTA consultation being held from February to June
- Try to propose as part of 2010 tariff application
 - Planned to be filed in Q3 of 2009
 - New tariff expected to be effective Q3 of 2010
- Further assessment of Prospective Rider C
- Discussion paper and comment process?

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Discussion and Questions on Future Deferral Account Matters



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For More Information



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Phone (403) 539-2504
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- Application on AESO web site at www.aeso.ca
Tariff ► Current Applications ► 2008 Deferral Account
Reconciliation

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