

IN THE MATTER OF the Alberta Electric System Operator 2008 Deferral Account
Reconciliation Application Number 1604964 and Proceeding ID 186 before the Alberta
Utilities Commission.

**Written Argument
of the
Alberta Electric System Operator**

July 27, 2009



CONTENTS

1	Application.....	2
2	Amounts Included in the Application	5
3	Cost and Revenue Variances.....	9
4	Allocation to and Settlement With Customers	12
5	Future Deferral Account Reconciliations	16
6	Conclusion.....	18

1 APPLICATION

- 1 On April 9, 2009, the Alberta Electric System Operator (AESO) filed its 2008 Deferral Account Reconciliation Application (“Application”) with the Alberta Utilities Commission (“AUC”)¹.
- 2 As summarized in section 1.4 (pages 10-11) of the Application, the AESO requests approval of the first reconciliation of deferral accounts for 2008, of the second reconciliations of deferral accounts for 2007, 2006, 2005, and 2004, and of the third reconciliation of deferral accounts for 2003. The AESO also requests approval of adjustments to the previously reconciled variances for the years 2002 and 2001.
- 3 Approval is also requested for the customer allocation methodology for recovering and refunding outstanding variance amounts from and to the AESO’s DTS and STS rate classes, and for the collection and refunding of the allocated amounts through a one-time payment/collection option. At the time the Application was filed, the AESO also requested such approval be granted as soon as practical on an interim refundable basis.
- 4 Finally, the AESO requests approval of the continuation of annual retrospective reconciliation of adjustments to losses relating to years prior to 2006, and confirmation of the AUC’s acceptance of the AESO’s responses to outstanding directions.
- 5 The Application addresses a total deferral account shortfall balance of \$6.4 million as summarized in Table 2-5 (page 20). The annual deferral account amounts net of Rider C charges and refunds are:
 - a shortfall of \$4.6 million from the first reconciliation of deferral accounts for 2008,
 - a shortfall of \$1.4 million from the second reconciliation of deferral accounts for 2007,
 - a surplus of \$2.0 million from the second reconciliation of deferral accounts for 2006,
 - a surplus of \$1.4 million from the second reconciliation of deferral accounts for 2005,
 - a surplus of \$0.1 million from the second reconciliation of deferral accounts for 2004,
 - a shortfall of \$1.6 million from the third reconciliation of deferral accounts for 2003,
 - a shortfall of \$2.2 million from reconciliations of adjustments to deferral accounts for 2002, and
 - a surplus of \$0.05 million from reconciliations of adjustments to deferral accounts for 2001.
- 6 The AESO held a technical session on the Application at the AESO office in Calgary on May 4, 2009, which was attended by representatives of eight stakeholders.
- 7 The process established for the review of the Application did not provide for the submission of intervenor evidence, but included an opportunity for information requests (“IRs”). IRs were received from the AUC, to which responses were provided by the AESO on July 13, 2009.

¹ Where required by the context, references to the AUC include its predecessor the Alberta Energy and Utilities Board in respect of periods prior to January 1, 2008.



- 8 The AESO provides the following written argument on matters addressed in the Application and raised in IRs from the AUC during the proceeding. Lack of comment on any specific matter does not necessarily indicate lack of materiality or significance of that matter. In particular, if an IR simply asked for additional information or did not suggest an approach that differed from the AESO's proposals, that IR may not be referenced in this argument. The AESO reserves the right to respond in reply argument to matters raised by other parties which are not addressed in this argument.

2 AMOUNTS INCLUDED IN THE APPLICATION

- 9 As discussed in section 1.1 (pages 6-8) of the Application, 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 since January 1, 1997. Deferral accounts are necessary to ensure no profit or loss results from the AESO's operation in accordance with section 14 of the *Electric Utilities Act* ("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.
- 10 The reconciliation of AESO deferral account balances and the associated allocation of those balances to customers have previously been addressed by the AUC in Decision 2003-099 for 2000, 2001, and 2002; Decision 2005-034 for 2003; and Decision 2009-010 for 2004, 2005, 2006, and 2007. Under the deferral account methodology most recently approved by the AUC in those decisions, the AESO reconciles, on a retrospective basis, the actual costs incurred in providing system access service to the revenues recovered in rates relating to provision of that service. For the 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.
- 11 The 2008, 2007, 2006, 2005, 2004, and 2003 deferral account reconciliations included in the Application were prepared on a retrospective, monthly, and production month basis, consistent with the method used in the first reconciliations for 2007, 2006, 2005, and 2004, and in the second reconciliation for 2003, as reviewed and approved by the AUC.
- 12 The deferral account reconciliations, prior period adjustments, and allocations to customers provided in the body and appendices of the Application were prepared using a software program developed by the AESO specifically for that purpose. The program had also been used to prepare the AESO's 2004-2007 deferral account reconciliation application.
- 13 As discussed in section 2.1 (pages 12-14) of the Application, the data included in the Application comprises 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
 - have been accounted for up to December 31, 2008.
- 14 The Application includes some significant amounts that are attributed to periods prior to 2008 under the production month presentation used in the Application. Those amounts are discussed in detail in the relevant production year sections of the Application.
- 15 As noted above, reconciliation of losses amounts for the 2008, 2007, and 2006 deferral account years are not included in the Application. This exclusion reflects that transmission system losses are no longer subject to retrospective deferral account reconciliation effective January 1, 2006, in accordance with approvals received as part of the AESO's 2006 General Tariff Application. Since then, losses have instead been subject to prospective adjustment through Calibration Factor Rider E. However, adjustments relating to years prior

to 2006 have occurred since that date, and such pre-2006 adjustments continue to be addressed through the annual retrospective reconciliations for those years in the Application.

- 16 Also as noted above, any adjustments relating to 2008 or prior years which occurred after December 31, 2008 are not included in the Application, and will be addressed in a future deferral account reconciliation application.
- 17 As explained in section 2.2 (pages 14-16) of the Application, all revenues, costs, and adjustments included in the Application are presented on a production month basis, with the following exceptions.
- 18 (1) AESO “own costs” (which comprise other industry costs and general and administrative costs of the AESO) are attributed to the month in which they occurred, as by their nature they are not attributable to specific matters of “production”.
- 19 (2) Rider C amounts are treated on an accounting month basis, as deferral account allocations are fully recalculated on a production month basis, and the netting of Rider C amounts against the recalculated allocations produce the same results whether treated on a production month or accounting month basis.
- 20 (3) Prior year adjustments relating to 2001 are presented on a production year (rather than production month) basis, as the original reconciliation for that year was performed on an annual rather than monthly basis.
- 21 The Application includes the AESO’s compliance with the AUC’s order in Decision 2009-010 to remove the redistribution of interest which had been proposed in the AESO’s 2004-2007 deferral account reconciliation application. Amounts arising from the proposed redistribution of interest had been included in the interim distribution of the 2004-2007 deferral account balances approved in Order U2008-253 dated July 17, 2008. Through correspondence with the AUC in February 2009, the AESO had confirmed that it was acceptable to the AUC to remove the redistribution of interest as part of this Application. Accordingly, section 2.3 (pages 16-19) of the Application provides details of the removal of the redistribution of interest, including its allocation to rates and rate components by year.
- 22 No information requests raised concerns with the revenue, cost, and adjustment amounts presented in the Application, the periods for which data was included, or the attribution of costs, revenues, and adjustments to production months and years. The AESO therefore submits that the amounts and periods included, and the attribution of amounts to production periods, should be approved as filed.

3 COST AND REVENUE VARIANCES

- 23 The Application includes sections detailing the financial results and deferral account balances for each deferral account year addressed in the Application.
- 24 Section 3 (pages 28-43) first discusses variances of costs from the AESO's approved revenue requirement for 2008. An explanation of a line item cost variance for 2008 is provided when it:
- exceeds approximately $\pm 10\%$ of the amount of the general and administrative costs component of the AESO's revenue requirement, or
 - is smaller than $\pm 10\%$ of the amount of the general and administrative costs component but is at least $\pm 1\%$ of that amount and at least $\pm 10\%$ of the approved line item amount itself.
- 25 For the second reconciliations of the 2007, 2006, 2005, and 2004 deferral accounts included in sections 4 (pages 44-53), 5 (pages 54-62), 6 (pages 63-71), and 7 (pages 72-80) of the Application respectively, those threshold levels have been reduced by half. An explanation of a line item cost variance for 2007, 2006, 2005, or 2004 is therefore provided when it:
- exceeds approximately $\pm 5\%$ of the amount of the general and administrative costs component of the AESO's revenue requirement, or
 - is smaller than $\pm 5\%$ of the amount of the general and administrative costs component but is at least $\pm 0.5\%$ of that amount and at least $\pm 5\%$ of the approved line item amount itself.
- 26 Finally, for the third reconciliation of the 2003 deferral accounts included in section 8 (pages 81-90) of the Application, those threshold levels have been reduced to one-third of the first reconciliation levels. That is, an explanation of a line item cost variance for 2003 is therefore provided when it:
- exceeds approximately $\pm 3\%$ of the amount of the general and administrative costs component of the AESO's revenue requirement, or
 - is smaller than $\pm 3\%$ of the amount of the general and administrative costs component but is at least $\pm 0.3\%$ of that amount and at least $\pm 3\%$ of the approved line item amount itself.
- 27 No similar threshold is established for the cost adjustments for 2002 and 2001 included in section 9 (pages 91-94) of the Application, although explanations are provided for large variance amounts.
- 28 As explained in section 2.5 (page 24) of the Application, the AESO considers the Application and related proceeding to be the proper venue for the consideration of the prudence of AESO costs incurred with respect to 2008. As well, where significant adjustments to 2007 or prior year costs are included in the deferral account reconciliation, the Application and related proceeding is also the proper venue for consideration of the prudence of those adjustments.



- 29 Information requests AUC.AESO-003 and -004 asked for additional information about specific costs and variance explanations included in the Application. The AESO's responses to those IRs reveal no errors or imprudence with respect to costs in the Application, and no corrections are required as a result of the additional information provided. The AESO therefore submits that the recorded costs included in the Application should be approved as filed.
- 30 Each section of the Application also discusses variances of revenue from the amounts forecast to be collected from base rates in effect during the year. Explanations are provided where variances of recorded revenue from forecast are large.
- 31 Cost and revenue variances through a year give rise to deferral account balances. The deferral account balances for each year are summarized in the relevant sections of the Application, including amounts collected or refunded through Rider C to maintain net deferral account balances at reasonable levels by rate and rate component.
- 32 As discussed in section 2.6 (page 25) of the Application, the AESO also reconciled the deferral account amounts in the Application to the AESO's audited financial statements, in Appendixes B, C, and D of the Application.
- 33 As no corrections are required to the recorded costs and revenues included in the Application, the AESO submits the deferral account balances and adjustments also be approved as filed.

4 ALLOCATION TO AND SETTLEMENT WITH CUSTOMERS

- 34 Deferral account balances and adjustments in the Application are allocated to customers as in previous deferral account reconciliation applications. The allocation to customers is discussed in sections 10.1 and 10.2 (pages 95-96) of the Application.
- 35 The 2003 to 2008 deferral account balances (except for losses) are allocated to individual customers based on each customer's percentage of total revenue collected through the rates in place during the period. Balances are allocated on a production month basis, by rate and rate component.
- 36 Effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation. Accordingly, the Application does not include any allocation of losses deferral account balances to customers for 2006, 2007, and 2008.
- 37 Deferral account balances associated with losses for 2003, 2004, and 2005 are 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 allocation methodology approved in previous reconciliation applications.
- 38 After deferral account balances are allocated to 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.
- 39 Adjustments relating to 2001 and 2002 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.
- 40 In section 10.3 (pages 96-97) of the Application, the AESO explains that the results of the deferral account allocation for each DTS and STS customer have been included in Appendices H, J, K, and L, in annual customer detail summaries and customer allocation detail. Customer confidentiality has been protected by assigning a number to each AESO direct-connect customer as had been done in previous deferral account reconciliation applications. After filing the Application, the AESO distributed to each customer the applicable customer and generator numbers for the deferral account reconciliation years included. The AESO also provided to any customer on request deferral account allocation data for each of the customer's settlement points, in Microsoft Excel format.
- 41 The AESO further explains that, where a customer assigned its System Access Service Agreement to another customer (the "assignee") in 2002 and later years, the deferral account allocation is applied to the account of the assignee, and the applicable customer numbers were provided only to the assignee. Similar treatment is not possible for

assignments in 2001 and prior years due to a lack of detailed assignment data for those years.

- 42 Finally, the AESO states in section 10.4 (page 97) of the Application that the current legislated federal Goods and Services Tax (“GST”) rate of 5% will be applied to the deferral account balances being charged and refunded.
- 43 In summary, the allocation of deferral account balances and adjustments to customers is completed in the same manner as in previous deferral account reconciliation applications. No information requests raised concerns with the allocation. The AESO therefore submits the allocation to customers should be approved as filed.
- 44 As described in section 11 (pages 98-99) of the Application, the AESO proposes a one-time payment and collection option to settle the outstanding deferral account balances, consistent with the approach approved for the AESO’s 2003 and 2004-2007 deferral account reconciliations. If one-time collection presents a financial burden to a customer, the AESO considers it reasonable to offer a three-month payment option, including carrying charges, as has been offered to customers in previous deferral account reconciliations.
- 45 At the time the Application was filed (on April 9, 2009), the AESO requested that the charges and refunds due to customers be settled as soon as possible on an interim refundable basis. The AUC issued Decision 2009-074 on June 3, 2009, approving the interim distribution of the deferral account balances as proposed in the Application. The AESO included the charges and refunds on final statements for May 2009, issued to customers on June 19, 2009. The AESO submitted a compliance notice on July 15, 2009, advising the AUC that deferral account amounts had been financially settled with customers, as ordered in Decision 2009-074. As explained in the notice, the settlement also completed compliance with the AUC’s order in Decision 2009-010 to remove the interest redistribution proposed in the AESO’s 2004-2007 deferral account reconciliation.
- 46 The AESO notes that amounts settled on invoices issued in June 2009 are interim and refundable, and are subject to adjustment in the final decision on the Application. In the Application, the AESO proposes that the impact of any such 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 to be filed in the second quarter of 2010.

5 FUTURE DEFERRAL ACCOUNT RECONCILIATIONS

- 47 In section 2.8 (pages 26-27) of the Application, the AESO notes that in previous deferral account reconciliation applications, it had assessed the effect of changes to transmission billing volumes for load customers between initial, interim, and final load settlement. The AESO found the volume changes to be minimal. Therefore, based on the quality of initial load settlement data, the AESO prepared the Application after initial settlement of December volumes, using a December 31, 2008 data cut-off date.
- 48 The AESO also explains that, 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. In determining the first quarter 2009 Rider C amounts, the AESO excluded all 2008 year-end balances from the calculation. Doing so allowed the AESO to begin preparation of the 2008 deferral account reconciliation application in February 2009, instead of waiting until May 2009 after settlement of first quarter revenue.
- 49 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.
- 50 The AESO was questioned on its consultation on matters related to deferral account reconciliations in information request AUC.AESO-002. The AESO responded that it had reached the following conclusions after discussions with a stakeholder working group formed as part of consultation on the AESO's 2010 General Tariff Application:
- to propose to delete Rider B as it no longer serves a useful function in the AESO's tariff; and
 - to make more explicit the Rider C determination based on including prior-year amounts in the calculation of Rider C for the second, third, and fourth quarters of the year, and excluding prior-year amounts in the calculation of Rider C for the first quarter of the year.
- 51 The AESO also concluded that additional consultation is needed on potential modifications to the deferral account reconciliation process, and expects to complete such consultation in September 2009 with a general invitation for stakeholder comment. After considering the results of that consultation, the AESO expects to propose modifications to the reconciliation process as part of its 2009 deferral account reconciliation application.
- 52 However, as stated at the beginning of section 2.8 (paragraph 112), the AESO is not seeking any decision in the current proceeding in respect of future deferral account reconciliation applications.

6 CONCLUSION

53 The AESO submits that no substantive matter has been raised in information requests that requires correction or revision to the proposals included in the AESO's 2008 Deferral Account Reconciliation Application.

54 The AESO notes that no party commented on the responses to directions included in section 12 (pages 100-102) of the Application.

55 As well, the AESO's Application includes extensive detail in several appendices, none of which were subject to information requests.

56 Having consideration for all the foregoing, the AESO submits that its Application should be approved as filed, and that the relief requested in section 1.4 (pages 10-11) of the Application should be granted in full.

57 Accordingly, the AESO further submits that the distribution of the deferral account balances approved on an interim basis in Decision 2009-074, as discussed in section 5 of this argument, should be confirmed as final.