





<p>Potential Changes to AESO Deferral Account Reconciliation Process</p> <p>John Martin, Regulatory Carol Moline and Roxanne Moeskops, Accounting November 19, 2009 — Calgary</p>	<p>Reliable Power</p> <p>Reliable Markets</p> <p>Reliable People</p>
 	

<p>Agenda</p>	
<ul style="list-style-type: none">• Introduction and background (slides 1-5)• Proposed changes to Riders B and C (slides 6-8)• Commission comments in Decision 2009-191 (slides 9-13)• Termination of full reconciliations (slides 14-18)• Allocation of “rolled-up” deferral account balances (slides 19-25)• Full re-reconciliation of terminated year (slides 26-29)• Next steps and discussion (slides 30-35)	

Meeting Objectives



- Determine approach to addressing changes in deferral account reconciliation process in 2010 tariff application
- Understanding of AESO proposal for terminating full deferral account reconciliations and allocated balances in terminated years
- Discussion of triggers for full re-reconciliations of terminating years and approach to such re-reconciliations
- Responses to questions about proposed changes

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Introduction and Background



- 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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Introduction and Background (cont'd)



- 12 appendices included extensive reports showing allocation of deferral account balances to customers
 - Over 1,600 pages in appendices
 - About 200 pages for each full reconciliation year
- Decision 2009-074 released on June 3, 2009 approved the interim distribution of balances in the 2008 application
- Only five information requests asked
- Decision 2009-191 released on October 29, 2009 approved the 2008 application on a final basis, as filed
 - Commission expressed concern about repeated re-reconciliations of deferral account years already considered by the Commission

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Proposed Deletion of Rider B



- AESO proposes to delete Working Capital Deficiency/ Surplus Rider B as part of 2010 tariff application
 - Rider B has not been used since before 2003
 - Rider B provides no useful value beyond that already provided through Rider C
- Deletion of Rider B would occur in conjunction with change to hourly allocation of operating reserve costs
 - Effectively would eliminate most volatile component of deferral accounts

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Proposed Changes to Rider C



- Rider C will be posted 30 days in advance of it becoming effective
 - Provides advance notice to market participants
- Rider C will continue to be calculated to restore deferral account balances to zero over next calendar quarter
- Rider C will continue to be calculated as a \$/MWh amount determined by rate component
 - Change to hourly allocation of operating reserve costs will effectively eliminate most volatile component

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Proposed Changes to Rider C (cont'd)



- Rider C will only include transactions since January 1 of the calendar year in which Rider C will apply
 - Q1 Rider C will therefore exclude prior-year balances
 - Prior-year balances will be addressed in deferral account reconciliation based on transactions as of December 31
 - Q2, Q3, and Q4 will include any prior-year balances resulting from transactions after December 31
- The AESO will not add or deduct interest from amounts recovered or refunded through Rider C or through a deferral account reconciliation application

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Commission Comments on Repeated Re-Reconciliations



- “...because deferral account processes and the riders... have a bearing on the ultimate allocation of tariff costs to individual AESO customers, go forward changes in these processes **should generally be addressed in the context of an AESO GTA.**” [paragraph 56, bolding added]
- “...concern about the number of times that additional reconciliation is required in respect of deferral account years that have already been considered by the Commission in the context of prior deferral account reconciliation applications. The Commission urges AESO to be mindful of this concern as it considers **its redesign of deferral account reconciliation processes and associated rate riders for its forthcoming GTA.**” [paragraph 57, bolding added]

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Addressing Deferral Account Process Changes in GTA



- Previous deferral account process changes have been addressed in deferral account reconciliation applications
 - Production year treatment of losses, allocation of losses on volumes times pool price, and monthly allocation of balances in 2000-2002 DAR application
 - Production year treatment of all revenue and costs in 2003 DAR application
 - Discussion of prospective rider methodology in compliance filing resulting from DAR Decision 2003-099
 - Full reconciliations of multiple years in 2004-2007 DAR application
- Impact of deferral account process changes unknown until implemented in a deferral account reconciliation
 - May be difficult for parties to assess whether their “rights may be directly and adversely affected” by changes

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Addressing Deferral Account Process Changes in GTA (cont'd)



- Decision on 2010 tariff application expected in late 2010 or early 2011
 - 2009 deferral account reconciliation planned to be filed in March-April 2010 (prior to tariff application decision)
 - Computer program changes for 2010 deferral account reconciliation need to be started in October-November of 2010 (prior to tariff application decision)
 - If deferral account process changes must be approved as part of 2010 tariff application process, they likely cannot be implemented until 2011 deferral account reconciliation (planned to be filed in March-April 2012)

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Addressing Deferral Account Process Changes in GTA (cont'd)



- Requesting deferral account process changes in 2009 reconciliation application could result in implementation for 2009 and 2010 deferral account reconciliations
 - Risk of requested changes not being approved and subsequent requirement for refiling of 2009 application
 - General stakeholder support required to mitigate risk
- AESO proposes to generally discuss process changes but not request approval in 2010 tariff application, and to use the proposed process to prepare its 2009 deferral account reconciliation and request approval in that proceeding
 - Subject to general stakeholder support

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Comparison of Approaches to Requesting Approval for Changes



Request Approval for Changes in Tariff Application	Implement and Request Approval for Changes in DAR Application
Impact of changes not known at time of tariff application	Impact of changes included in application
Effective for 2011 deferral account reconciliation	Effective for 2009 deferral account reconciliation
No risk of re-filing as process will be approved before implementation	Risk of re-filing if changes not approved as proposed

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Possible Approach for Termination of Full Reconciliations




- Full reconciliations of a production year include the allocation of deferral account balances to customers based on detailed deferral account allocation methodology
 - By customer revenue
 - By volumes times pool price (for losses, up to 2005)
- To terminate full reconciliation for a year, non-material adjustments related to the terminated year would be rolled up into the oldest year for which a full reconciliation is being completed
- AESO considers that full reconciliations should occur for at least three years
 - 2007, 2008, and 2009 for the 2009 DAR application


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Illustration of Termination of Full Reconciliations



Production Year	2009 DAR Application	
	Treatment (for DTS rate class)	Deferral Account Balance as of Sep 2009 surplus (shortfall), \$ 000
2009	Full Reconciliation	(\$23,399)
2008	Full Reconciliation	(\$4,986)
2007	Full Reconciliation	\$1,995
2006	Roll Up to 2007 	\$1,493
2005		(\$285)
2004		(\$328)
2003	no transactions	
2002		
2001		

Preliminary Deferral Account Balances by Year: DTS and STS



Amounts, \$ 000 000	2009	2008	2007	2006	2005	2004
Interconnection	378.7	(.08)	(0.3)	-	-	-
Losses						
Operating Reserve	66.6	-	-	-	-	-
Voltage Control	36.4	-	-	-		
Other System Support	6.2	-	-	-	-	-
Total Revenue	487.9	(0.9)	(0.3)	-	-	-
Wires	(396.5)	(2.9)	2.8	1.5	(0.1)	(0.1)
Ancillary Services	(107.0)	(1.3)	(0.5)	-	(0.2)	(0.3)
Losses						
Other Industry	(10.5)	-	-	-	-	-
General & Admin	(41.9)	-	-	-	-	-
Total Costs	(555.9)	(4.1)	2.3	1.5	(0.3)	(0.3)
Surplus (Shortfall)	(68.0)	(5.0)	2.0	1.5	(0.3)	(0.3)

No transactions for pre-2004 years
 Amounts as of September 2009

**Reconciled and Rolled-Up Amounts
 by Rate Component: DTS and STS**



Surplus (Shortfall), \$ 000

Year	Inter-connection	Losses	Operating Reserve	Voltage Control	OSS Services	Total
2009	(25,980)		(3,461)	5,692	351	(23,399)
2008	(3,655)		50	(1,363)	(18)	(4,986)
2007	2,512		(14)	(491)	(13)	1,995
Rolled-Up Years						
2006	1,535		(49)	10	(3)	1,493
2005	(75)	-	(209)	-	-	(284)
2004	(50)	-	(278)	-	-	(328)
Total	(25,713)	-	(3,961)	3,848	317	(25,509)

No transactions for pre-2004 years
 Amounts as of September 2009

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**Reconciled and Rolled-Up Amounts
 by Rate Component: DTS Only**




Surplus (Shortfall), \$ 000

Year	Inter-connection	Losses	Operating Reserve	Voltage Control	OSS Services	Total
2009	(25,980)		(3,461)	5,692	351	(23,399)
2008	(3,655)		50	(1,363)	(18)	(4,986)
2007	2,512		(14)	(491)	(13)	1,995
Rolled-Up Years						
2006	1,535		(49)	10	(3)	1,493
2005	(44)	-	(105)	-	-	(148)
2004	(29)	-	(139)	-	-	(168)
Total	(25,661)	-	(3,718)	3,848	317	(25,214)

No transactions for pre-2004 years
 Amounts as of September 2009

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Roll-Up of Non-Material Transactions: DTS Rate Class



- Costs allocated to DTS rate class would be rolled up into the oldest year for which a full reconciliation is being completed
- Revenue and cost adjustments would be rolled up into the same production month in which they originally occurred, but in the year into which they are being rolled up
 - Addresses potential seasonal revenue patterns
 - Alternative would be to allocate annual aggregate of revenue and cost adjustments equally over each month in the year into which they are being rolled up

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Reconciled and Rolled-Up Amounts by Rate Component: STS Only




Surplus (Shortfall), \$ 000

Year	Inter-connection	Losses	Operating Reserve	Voltage Control	OSS Services	Total
2009						
2008						
2007						
Rolled-Up Years						
2006						
2005	(32)	-	(104)	-	-	(136)
2004	(21)	-	(138)	-	-	(160)
Total	(53)	-	(242)	-	-	(296)

No transactions for pre-2004 years
 Amounts as of September 2009

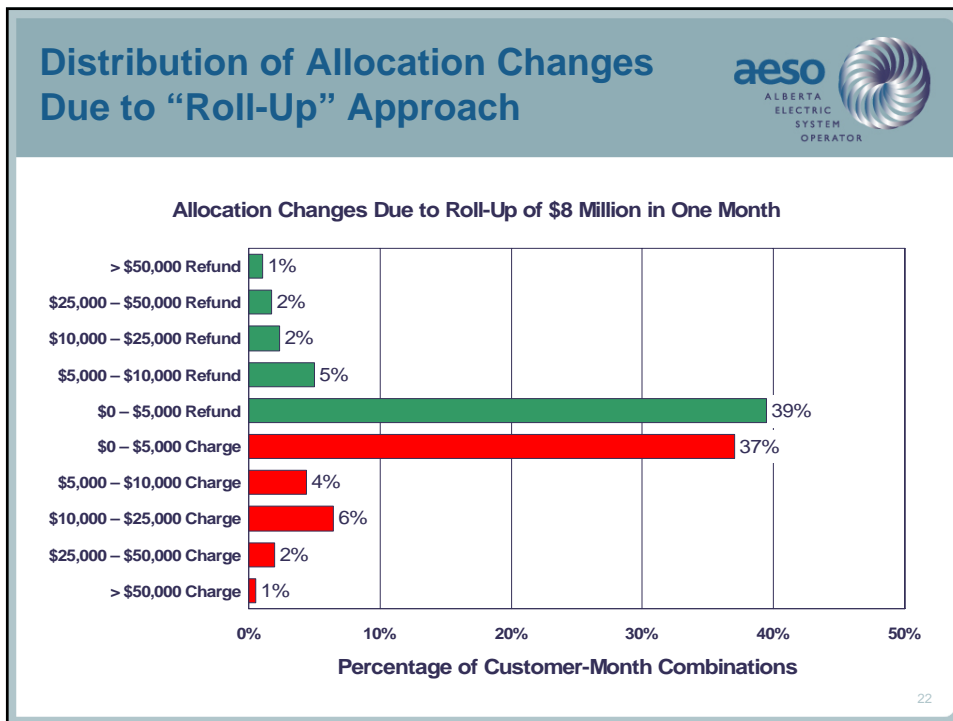
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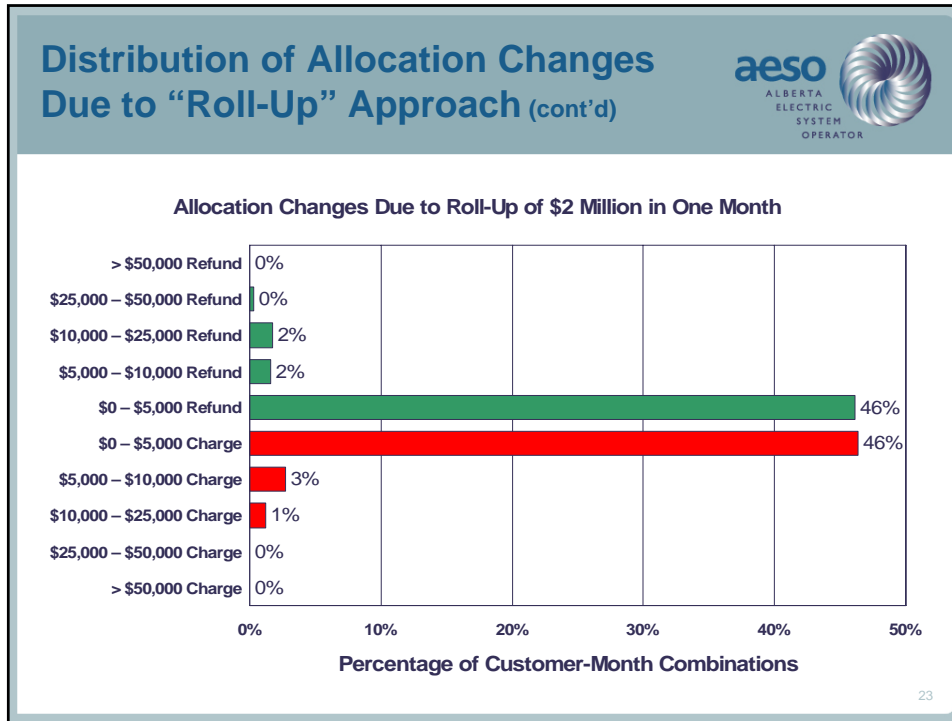
Roll-Up of Non-Material Transactions: STS Rate Class




- Costs allocated to STS rate class (before 2006) would be rolled up into prospective Rider E at the time of approval
- Rider E became effective January 1, 2006, and relates only to transmission system losses
 - Rider E applies to generators, demand opportunity service, exports, and imports
- Pre-2006 STS adjustments may relate to interconnection, operating reserves, and other system support service rate components
 - Efficient and practical approach to address non-material adjustments


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- ### Thresholds for Materiality of Adjustments
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- **Cost adjustments** are material when the deferral account balance exceeds $\pm 1\%$ of the AESO's forecast annual revenue requirement for the production year
 - By rate component (interconnection charge, operating reserve change, etc.),
 - In aggregate for a year, or
 - In aggregate for all rolled-up years
 - For 2006: $\pm 1\%$ of \$759.0 million or $\pm \$7.6$ million
 - **Revenue adjustments** are material when, in the AESO's opinion, a full reconciliation is needed to correctly address the impact of a customer revenue adjustment on deferral account allocations to that customer
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Recent Rider E Balances




		Rider E Balance	
2009	Q4	\$1.1 million over collected	0.12% refund
	Q3	\$0.1 million under collected	0.00% charge
	Q2	\$1.5 million over collected	0.04% refund
	Q1	\$1.4 million over collected	0.03% refund
2008	Q4	\$10.0 million over collected	0.84% refund
	Q3	\$1.1 million over collected	0.04% refund
	Q2	\$1.3 million over collected	0.04% refund
	Q1	\$2.4 million over collected	0.05% refund

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- Example of Full Re-Reconciliation of Terminated Year**
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- Material wires cost adjustment occurred in 2010 related to 2005 production year (after 2005 was terminated in 2009 DAR application)
 - No material adjustments occurred in 2010 that relate to 2004, 2006, or 2007
 - Accurate deferral account balances would be re-created for full reconciliation of 2005
 - 2005 DTS adjustments that were rolled up into 2007 in the 2009 application are now removed from 2008 (as 2007 no longer has a full reconciliation) and reconciled in 2005 full reconciliation
 - 2005 STS adjustments that were incorporated into Rider E in 2010 (resulting from the 2009 application) are removed from current year Rider E and reconciled in 2005 full reconciliation
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Example of Full Re-Reconciliation of Terminated Year (cont'd)



Production Year	2009 DAR Application	2010 DAR Application
2010	-	Full Reconciliation
2009	Full Reconciliation	Full Reconciliation
2008	Full Reconciliation	Full Reconciliation
2007	Full Reconciliation	Roll Up to 2008
2006	Roll Up to 2007	Full Reconciliation
2005		Roll Up to 2008
2004		Roll Up to 2008

Diagram illustrating the reconciliation process: Blue arrows show a roll-up from 2005 to 2007, and a red arrow shows a roll-up from 2004 to 2008. A red arrow also points from the 2005 'Full Reconciliation' cell to the 2008 'Full Reconciliation' cell.

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- Disclosure of Non-Material Transactions**
- 
- The AESO proposes that detailed variance explanations not be provided for rolled-up years in a deferral account reconciliation application
 - Explanations would be provided for large adjustments
 - Annual deferral account summary information will be provided for rolled-up years
 - Annual deferral account tables for full reconciliations will detail rolled-up year amounts included
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Example Summary Information Provided for Rolled-Up Year



Line No.	Recorded Base Rate	Recorded Costs	Over (Under) Collection	Prior Deferral Account Collections (Refunds)		Over (Under) Roll-Up to 2007	
	(a)	(b)	(c)=(a)+(b)	Rider C (d)	Prior DAR ¹ (e)	\$ (f)=Σ(c):(e)	% (g)=- (f)÷(b)
Demand Transmission Service							
1	\$467.0	(\$470.1)	(\$3.2)	\$14.5	(\$10.4)	\$0.9	0.2%
2	173.5	(185.3)	(11.9)	13.3	0.6	1.9	1.1%
3	52.3	(39.3)	13.0	(12.4)	(0.5)	0.0	0.0%
4	7.9	(7.6)	0.4	(0.3)	(1.0)	(0.9)	(11.7%)
5	\$700.6	(\$702.3)	(\$1.7)	\$15.1	(\$11.3)	\$2.0	0.3%

Notes: Numbers may not add due to rounding.
¹ DAR means Deferral Account Reconciliation.


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Discussion




Full Reconciliations	Roll-Up Approach
Precision of allocation is high based on retrospective reconciliation	Less precise (year-over-year revenue change, addition of new customers, change in STS basis)
Large amount of information filed	Less information filed
Allocation is transparent and can be traced by customer	Allocation is less transparent
Significant time and resource requirements of AESO	Almost identical, but likely to increase if terminated year must be re-reconciled
AESO-developed software is reliable and accurate, can handle data, and can be updated annually	Software will need to be modified for roll-up of years

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Discussion (cont'd) 

Full Reconciliations	Roll-Up Approach
Methodology is well-established	New approach is more complex and will need to be tested <ul style="list-style-type: none"> – materiality thresholds – DTS allocation approach – STS allocation approach – re-reconciling terminated year

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Alternatives? 

- Change in approval request to reduce number of times that Commission must re-examine deferral account years that have already been considered by the Commission
 - Request approval of methodology and results for current deferral account year only (for example, for 2009 only)
 - All other years would be filed as appendix to current year application for information only, using the previously-approved methodology
 - Maintains precision and transparency of allocation
 - Results would be accepted unless intervener objected to results of reconciliation and AESO declined to address
- Could request approval of two or three years (rather than just one) with balance of years filed for information only

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Next Steps



- Comments on consultation due on Friday, November 27
- 2010 tariff application to be filed in early December
- 2009 deferral account reconciliation application to be filed in March-April 2010
 - Using data cut-off date of December 31, 2009
 - Plan to request approval for immediate interim settlement of balances
- Q1 2010 Rider C would exclude 2009 year-end balances
 - Similar to Q1 2009 Rider C
 - Rider sheet would not change until approved as part of 2010 tariff application proceeding

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Questions?



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For More Information



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- Consultation documents on AESO website at www.aeso.ca
Tariff ► Current Consultations ► 2010 Tariff, in section for
Deferral Account Riders B and C Working Group

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