



November 26, 2009

Posted on AESO website

Deferral Account Riders B and C Working Group Members
AESO Stakeholders

Dear Stakeholder:

Re: Update to Discussion and Request for Comments on Potential Changes to AESO Deferral Account Reconciliation Process

As a result of further consideration of potential changes to its deferral account reconciliation process, the AESO has updated its initial proposals as discussed below. The AESO invites stakeholders to provide comments on the revised proposals using the accompanying updated form (rather than the earlier form provided on November 12). The deadline for comments has been extended to **Friday, December 4, 2009**.

On November 12, 2009, the AESO posted on its website a letter discussing proposals planned to be included in either or both of the AESO's 2010 tariff application (to be filed later this year) or the AESO's 2009 deferral account reconciliation application (to be filed in March or April of 2010). On November 19, 2009, the AESO met with stakeholders to further review these proposals and discuss additional related information. The discussion letter, presentation, and other consultation information are available on the AESO's website at www.aeso.ca by following the path Tariff ► Current Consultations ► 2010 Tariff.

The AESO's updated proposals reflect information included in the AESO's presentation to stakeholders and are discussed in more detail below.

1 Proposed Changes to Riders B and C

As discussed in the November 12, 2009, discussion letter, the AESO proposes to delete Rider B and file the attached draft of Rider C (which includes some minor wording changes) for approval as part of its 2010 tariff application. The AESO invites stakeholders to provide comments on the draft Rider C.

2 AUC Comments in 2008 Deferral Account Reconciliation Decision

During the November 19, 2009, consultation meeting, the AESO discussed what it considers the disadvantages of requesting approval of deferral account reconciliation process changes in a tariff application, as suggested by the Alberta Utilities Commission in paragraphs 56-57 of Decision 2009-191 on the AESO's 2008 deferral account reconciliation:

- (a) changes proposed in a tariff application would be reviewed without knowing their actual impact (which could only be determined through a detailed deferral account reconciliation), and
- (b) process changes proposed in a tariff application would require 12 to 18 months for approval and implementation, compared to the few months (assuming interim approval) that would be required if proposed in a deferral account reconciliation application.

As discussed with stakeholders, the AESO proposes to include in its 2010 tariff application a general discussion of the information provided in the remainder of this letter but no specific requests for approval of deferral account reconciliation process changes. The AESO invites stakeholders to provide comments on this proposal, and specifically whether deferral account process changes can be more efficiently addressed in a tariff application or in a deferral account reconciliation application.

3 Changes to Deferral Account Reconciliation Process

As a result of the AESO's further consideration of its initial proposals and discussion with stakeholders, the AESO no longer considers the proposed "termination and roll-up" approach described in its November 12, 2009, discussion letter to be practical. At the November 19 meeting, the AESO summarized what it considers the disadvantages of the "termination and roll-up" approach, including:

- (a) reduction in the precision of the allocation of deferral account balances, especially for STS-related amounts;
- (b) lack of transparency of the resulting allocation, especially if a terminated year has to be later re-reconciled;
- (c) minimal reduction to AESO time and resource requirements, and possible increase if a terminated year has to be later re-reconciled; and
- (d) significant risk that impacts on deferral account amounts allocation to customers would be materially affected and thus require re-reconciliation of a terminated year.

The AESO now considers that it prefers to continue the current multiple-year retrospective deferral account reconciliations in annual applications, rather than the "termination and roll-up" approach. Although a large volume of information is filed in multiple-year applications, the methodology is well-established, the allocation is precise and transparent, and the regulatory review has generated little controversy in the AESO's most recent applications. The AESO also notes that, to date, no transactions have been recorded in 2009 that relate to 2001, 2002, or 2003 production years, such that the 2009 deferral account reconciliation is expected to include two fewer years of reconciliation than the 2008 application (resulting from the elimination of 2001, 2002, and 2003 production years plus the addition of 2009 production year).

In consideration of these factors, the AESO proposes to continue to provide annual deferral account reconciliation applications that include full reconciliations of all production years to which transactions in the application year relate.

4 Other Alternative Processes

The AESO also discussed alternatives to these approaches with stakeholders on November 19. Alternatives could include:

- (a) the filing for **approval** of reconciliations of one, two, or three production years, with reconciliation of all prior production years filed for **information only** and subject to review only in response to the complaint of an intervener;
- (b) permanent termination of deferral account reconciliations for a production year after two or more reconciliations, with no possibility of later re-reconciliation;
- (c) movement to a prospective rather than retrospective methodology, which would align with the deferral account allocation methodology used by owners of distribution systems; and
- (d) changes to the AESO's rate design methodology or rate structures that may reduce the deferral account balances, which would potentially increase stakeholder comfort with an alternative to retrospective reconciliation.

At this time, the AESO considers implementation of an alternative process to be impractical as the balances in the AESO's deferral accounts continue to remain relatively large and volatile, due in large part to variances between operating reserve costs and revenues (which both vary with pool price). The AESO will be proposing changes to the operating reserve charge in its 2010 tariff application, which are intended to minimize deferral account balances related to operating reserves. The AESO accordingly suggests it may be reasonable to defer further changes to the deferral account reconciliation process until the proposed operating reserve charge is reviewed in the AESO's 2010 tariff application.

The AESO proposes to continue to meet with stakeholders during preparation of its annual deferral account reconciliation applications, and will re-assess the conclusions in this letter at those meetings. The AESO invites stakeholders to comment on the revised proposals in this letter by **Friday, December 4, 2009**, using the provided comment form.

This letter and all other printed information related to the Deferral Account Riders B and C Working Group and the 2010 tariff consultation is available on the AESO's website at www.aeso.ca by following the path Tariff ► 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@aesoc.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

attachment

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

**RIDER C
DEFERRAL ACCOUNT ADJUSTMENT RIDER**

Applicability

- 1** Rider C applies to **system access service** provided under the following rates:
- (a) Demand Transmission Service Rate DTS;
 - (b) Fort Nelson Transmission Service Rate FTS; and
 - (c) Export Transmission Service Rate XTS.

Rider

- 2(1)** Rider C recovers or refunds accumulated deferral account balances which are comprised of differences between revenues and costs incurred in providing **system access service to market participants**.
- (2)** The **ISO** will determine Rider C for each calendar quarter as an additional \$/MWh charge or credit that applies to each rate in subsection 1 above.
- (3)** The **ISO** will publish the Rider C charge or credit, including its calculation, on the **ISO** website at least thirty (30) calendar days prior to the beginning of the calendar quarter in which it will apply.
- (4)** The **ISO** will calculate the Rider C charge or credit as the sum of amounts, based on available recorded and forecast values, required to restore the deferral account balance to zero (0) over the following calendar quarter, or such longer period as determined by the **ISO** to minimize rate impact, in each of the following rate components:
- (a) interconnection charge;
 - (b) operating reserve charge;
 - (c) voltage control charge; and
 - (d) other system support services charge
- where revenues and costs are assigned to each rate component in accordance with the **ISO tariff** in effect during the period in which the revenue was collected or the cost was incurred.
- (5)** The Rider C calculation will include only transactions settled with the **ISO** that have occurred after January 1 of the calendar year in which the Rider C charge or credit will apply, although such transactions may involve amounts that relate to prior years.

Terms

- 3(1)** The terms and conditions form part of this rider.
- (2)** Rider C amounts collected or refunded are subject to later adjustment in a deferral account reconciliation application filed with the **Commission** by the **ISO**.
- (3)** The **ISO** will not add or deduct interest will to or from amounts recovered or refunded through Rider C or through a deferral account reconciliation application.



Revision History

2009-11-26 Revised to reflect proposals for 2010 tariff application.
Working draft, distributed for stakeholder comment.