2009 Deferral Account Reconciliation Application Consultation Meeting

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Carol Moline and Roxanne Moeskops, Accounting
March 5, 2010 — Calgary

Agenda

• Introduction (slides 1-4)
• Summary and background (slides 5-8)
• Deferral account reconciliation methodology (slides 9-15)
• Summary of deferral accounts (slide 16)
• Notable variances (slides 17-21)
• Allocation to customers (slides 22-29)
• Next steps (slides 30)
• Future deferral applications (slides 31-33)
• Discussion and questions (slides 34-35)
Meeting Objectives

• Develop understanding of how deferral account balances are determined and are allocated to customers
• Clarify expectations for 2009 deferral account reconciliation application filing
• Respond to questions about application and methodology
• Identify any stakeholder concerns with application or process
• Discuss approach for current and future deferral account reconciliation applications

Scope of Presentation

• Presentation is based on preliminary deferral account balances
  – Application will likely contain some differences in numbers when filed
• Discussion is meant to be informal
  – Please ask questions during presentation!
• Discussion is “without prejudice”
  – Does not limit or restrict participants’ rights during regulatory proceeding
  – AESO may comment on what it concludes as a result of discussion
AESO plans to file comprehensive deferral account reconciliation application for 2009 in April 2010, including:
- first reconciliation for 2009;
- second reconciliation for 2008; and

- No new transactions related to years prior to 2004

- AESO will request interim approval for immediate settlement of deferral account amounts with customers

### Preliminary Balances

**Surplus (Shortfall) After Rider C, $ 000**

<table>
<thead>
<tr>
<th>Year</th>
<th>Interconnection</th>
<th>Losses</th>
<th>Operating Reserve</th>
<th>Voltage Control</th>
<th>OSS Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>(5,887)</td>
<td></td>
<td>38,999</td>
<td>3,981</td>
<td>(56)</td>
<td>37,037</td>
</tr>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Adjustments Since 2008 Reconciliation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>(3,426)</td>
<td>50</td>
<td>(1,363)</td>
<td>(18)</td>
<td>(4,757)</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>3,923</td>
<td>(14)</td>
<td>(491)</td>
<td>(13)</td>
<td>3,405</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>1,492</td>
<td>(14)</td>
<td>10</td>
<td>(3)</td>
<td>1,485</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>98</td>
<td>-</td>
<td>(210)</td>
<td>-</td>
<td>(112)</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>(9)</td>
<td>-</td>
<td>(278)</td>
<td>-</td>
<td>(287)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(3,809)</strong></td>
<td>-</td>
<td>39,021</td>
<td>1,649</td>
<td>(90)</td>
<td>36,771</td>
</tr>
</tbody>
</table>

- Excludes $35 million payment to AltaLink for work on cancelled 500 kV Edmonton-Calgary project in accordance with Decision 2009-151
History

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Reconciliations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Adjustments</td>
<td>—</td>
<td>2001-2002</td>
<td>—</td>
</tr>
<tr>
<td>Filed</td>
<td>Est. Apr 2010</td>
<td>Apr 2009</td>
<td>Jun 2008</td>
</tr>
<tr>
<td>Final Decision</td>
<td>Late 2010</td>
<td>Oct 2009</td>
<td>Jan 2009</td>
</tr>
</tbody>
</table>

Immediate Interim Settlement

- Net total 2004-2009 deferral account balances of $36.8 million surplus based on transactions to December 31, 2009
  - $96.8 million of 2009 Rider C collections “unwound” and reallocated
- Full regulatory review process would likely conclude in late 2010
- Interim refundable settlement would provide prompt and accurate refund of outstanding balances to customers
- Interim approval by mid-June would allow settlement on invoices issued in June
- Are there approaches that would simplify interim approval process?
Deferral Account Reconciliation Methodology

- Deferral account balance is actual costs less actual revenue
- Deferral account balances maintained at reasonable levels through quarterly Rider C, which collects or refunds amounts prior to annual reconciliation
- Deferral account balances reconciled and allocated on a production month basis for each year since 2003
- Deferral account balances allocated to customers before Rider C and prior reconciliation amounts
  - Effectively “unwinds” prior cash flows to determine new balances by rate and rate category for each customer

Deferral Account Reconciliation Application

- Application will follow model of 2008 and 2004-2007 applications
  - Sections for each year will discuss cost variances, revenue variances, and deferral account balances
- Appendices will include extensive reports showing allocation of deferral account balances to customers
  - No changes to report layouts from those in 2008 application, other than adding 2009 year and removing years with no transactions
  - Individual allocations by settlement point will be provided to customers with multiple settlement points on request at time of application (in Microsoft Excel format)
  - AESO standard billing format layout for settlement point information was not developed as requestor did not pursue
2009 Deferral Account Reconciliation

- Data cut-off date of December 31, 2009
  - Preparation of 2009 application began in February
  - Minimal effect on load customers from changes to transmission billing volumes between initial, interim, and final settlements
- 2010 Q1 Rider C amounts do not apply to 2009
  - 2009 year-end balances carried forward to be settled through deferral account reconciliation
- Some adjustments related to 2009 and prior years have occurred since December 31
  - Adjustments net to $5.3 million shortfall (net increase to costs)
  - Mainly due to $5.4 million wire cost adjustment for AltaLink for 2009 interim rate true-up and 2006-2008 deferral accounts

Excluded Payment to AltaLink

- 2009 reconciliation excludes $35 million payment to AltaLink for work on cancelled 500 kV Edmonton-Calgary project in accordance with Decision 2009-151
  - Payment made at end of December 2009
  - AltaLink costs incurred in 2006
- AESO has filed request for review and variance relating to payment
  - Submissions on preliminary “threshold” question in January 2010
- $35 million currently being collected through Rider C over 12 months of 2010
  - AESO considers significant timing uncertainty exists as a result of review and variance application
Cost Variances

- All costs recorded in revenue requirement categories as approved in 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

Revenue Variances

- 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
Deferral Account Balances

- 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 has not been true since 2006
- Information provided on all significant cost and revenue variances for 2009 first reconciliation
- Similar information provided for 2008 second reconciliation and 2004-2007 third reconciliations, but only considered variances arising subsequent to those reconciliations filed in 2008 deferral reconciliation application

Summary of Deferral Accounts, $ 000 000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interconnection</td>
<td>$528.6</td>
<td>($0.8)</td>
<td>($0.3)</td>
<td>$0.0</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Losses</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Operating Reserve</td>
<td>98.4</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Voltage Control</td>
<td>45.4</td>
<td>(0.0)</td>
<td>0.0</td>
<td>0.0</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other System Support</td>
<td>7.9</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>(0.0)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>680.3</td>
<td>(0.9)</td>
<td>(0.3)</td>
<td>0.0</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Wires</td>
<td>(534.9)</td>
<td>(2.6)</td>
<td>4.2</td>
<td>1.5</td>
<td>0.1</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>(132.8)</td>
<td>(1.3)</td>
<td>(0.5)</td>
<td>–</td>
<td>(0.2)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Losses</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other Industry</td>
<td>(14.2)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>General &amp; Admin</td>
<td>(58.2)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>(740.1)</td>
<td>(3.9)</td>
<td>3.7</td>
<td>1.5</td>
<td>(0.1)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Surplus (Shortfall)</td>
<td>(59.8)</td>
<td>(4.8)</td>
<td>3.4</td>
<td>1.5</td>
<td>(0.1)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Rider C Collection</td>
<td>96.8</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net Surplus (Shortfall)</strong></td>
<td>$37.0</td>
<td>($4.8)</td>
<td>$3.4</td>
<td>$1.5</td>
<td>($0.1)</td>
<td>($0.3)</td>
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## Thresholds for Variance Explanations

<table>
<thead>
<tr>
<th>Production Year</th>
<th>Variance Explanation Threshold</th>
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<tbody>
<tr>
<td>2009 First Reconciliation</td>
<td>±$6.0 million variance, or at least ±$0.6 million and at least ±10% of forecast</td>
</tr>
<tr>
<td>2008 Second Reconciliation (half of first)</td>
<td>±$2.5 million variance, or at least ±$0.25 million and at least ±5% of forecast</td>
</tr>
<tr>
<td>2007 Third Reconciliation (one-third of first)</td>
<td>±$1.3 million variance, or at least ±$0.13 million and at least ±3% of forecast</td>
</tr>
<tr>
<td>2006 Third Reconciliation (one-third of first) 2005 2004</td>
<td>±$1.0 million variance, at least ±$0.1 million and at least ±3% of forecast</td>
</tr>
</tbody>
</table>

First reconciliation explanation thresholds are based on about 10% of each year’s general and administrative costs component of the AESO’s revenue requirement.

## Preliminary Notable Variances for 2009

- ATCO’s isolated generation credits were $6.0 million (65%) lower than forecast in 2009 due to incorrect basis for forecast.
- Wire costs for ENMAX Power were $4.6 million (15%) higher than forecast in 2009 due to approval of final costs in Decision 2009-035.
- Transmission must-run costs were $12.9 million (35%) lower than forecast in 2009 due primarily to lower than forecast pool prices and natural gas prices.
- External regulatory costs were $5.6 million (95%) lower than forecast in 2009 due primarily to fewer regulatory proceedings than forecast.
Preliminary Notable Variances for 2009 (cont’d)

- Operating reserves were $133.4 million (57%) lower than forecast in 2009
  - Significantly lower pool prices during certain periods
  - Larger discounts for operating reserves
  - Volumes active operating reserves 9% less than forecast due to lower than forecast demand.
  - $39.0 million surplus balance remaining after Rider C primarily arising in Q4 2009

Preliminary Notable Variances for 2008

- Additional wire costs of $2.6 million incurred in 2009 related to 2008
  - $2.2 million for remaining KEG conversion costs (Decision 2008-101)
  - $1.7 million for ATCO isolated generation operation and maintenance costs (Decision 2009-032)
  - $0.9 million refund of taxes for EPCOR Transmission (Decision 2009-031)
- Net refund of billing adjustments for interconnection charges of $0.8 million
- Additional TMR costs of $1.4 million incurred in 2009 for settling prior year amounts
Preliminary Notable Variances for 2007 and 2006

- Additional wire costs of $4.2 million incurred in 2009 related to 2007 due primarily to ATCO’s deferral account reconciliation adjustments of $3.8 million (Decision 2009-087)
- Additional wires costs of $1.5 million incurred in 2009 related to 2006 due primarily to AltaLink’s deferral account reconciliation adjustments of $1.6 million (Decision 2009-018)

Allocation to Customers

- 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
  - No losses-related transactions for years prior to 2006
- Rider C amounts applied after deferral account balances allocated to customers
Individual Customer Amounts

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

Billing of Customer Amounts

- 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 the December 31, 2009 data cut-off date.
- GST will be applied at current rate of 5%.
Preliminary DTS Customer Results

<table>
<thead>
<tr>
<th>Net Refund (Charge), $000,000</th>
<th>DFOs</th>
<th>Direct Connects</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$15.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$10.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$5.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$(-5.0)</td>
<td></td>
<td></td>
</tr>
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</table>

Preliminary DTS Customer Results (cont’d)

<table>
<thead>
<tr>
<th>Number of DTS Customers</th>
<th>% of Total DTS Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges of $0.1 to $0.3 million</td>
<td>12</td>
</tr>
<tr>
<td>Charges of $0.01 to $0.1 million</td>
<td>8</td>
</tr>
<tr>
<td>Charges of $0.0 to $0.01 million</td>
<td>11</td>
</tr>
<tr>
<td>Refunds of $0.0 to $1.0 million</td>
<td>12</td>
</tr>
<tr>
<td>Refunds of $1.0 to $18.0 million</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
</tr>
</tbody>
</table>
Preliminary STS Customer Results

<table>
<thead>
<tr>
<th>Net Refund (Charge), $000 000</th>
<th>Direct Connects</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20.0</td>
<td></td>
</tr>
<tr>
<td>$15.0</td>
<td></td>
</tr>
<tr>
<td>$10.0</td>
<td></td>
</tr>
<tr>
<td>$5.0</td>
<td></td>
</tr>
<tr>
<td>$0.0</td>
<td></td>
</tr>
<tr>
<td>($5.0)</td>
<td></td>
</tr>
</tbody>
</table>

Preliminary STS Customer Results (cont'd)

<table>
<thead>
<tr>
<th>Charges</th>
<th>Number of STS Customers</th>
<th>% of Total STS Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges of $0.0 to $0.001 million</td>
<td>21</td>
<td>54%</td>
</tr>
<tr>
<td>Charges of $0.001 to $0.01 million</td>
<td>10</td>
<td>26%</td>
</tr>
<tr>
<td>Charges of $0.01 to $0.03 million</td>
<td>8</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100%</td>
</tr>
</tbody>
</table>
Refunding and Collecting

- Settlement through one-time payment and collection
  - In case of financial burden, 3-month payment option available
- AESO will propose interim refundable settlement as soon as possible
  - Would provide prompt and accurate refund of outstanding balances to customers
  - Settlement in June if approval received by mid-June
  - Subject to adjustment in final decision on deferral account reconciliation application, expected in late 2010

Next Steps

- File 2009 deferral account reconciliation application in April 2010
  - AESO will recommend written proceeding
- Distribute customer and generator number codes
  - Distribution of customer-specific settlement point reports on request
- Request approval for immediate interim settlement as part of filing
- Commission will establish schedule, expected to include information request process
Future Applications

- AESO expects to continue full reconciliations for all years that have deferral account transactions
  - Does not require development of methodology to address prior year adjustments if full reconciliations are suspended
- Changes proposed in 2010 tariff application expected to reduce Rider C amounts and deferral account balances
  - Hourly allocation of operating reserve costs
  - “Reasonably expected” TFO wires costs for forecast year
  - Annual updates of rate levels between comprehensive tariff applications

Future Applications (cont’d)

- Could deferral account reconciliation applications be transitioned to compliance filings rather than requests for approval?
  - Could request approval for first reconciliation for a year and treat all subsequent reconciliations as compliance filings to address period adjustments
  - Would address Commission’s “concern about the number of times that additional reconciliation is required in respect of deferral account years”
  - Recent deferral account reconciliations have been approved as filed (with the exception of interest redistribution in 2004-2007 application)
Future Applications (cont’d)

- Compliance filing approach could reduce Commission review burden
  - Would not be expected to affect AESO or intervener workload
- Possible approaches
  - File 2009 application requesting approval for all years (2004-2009) and proposing compliance filing approach for 2010 application
  - File 2009 application requesting approval for 2009 and treat 2004-2008 as compliance filing

Discussion and Questions

- Any concerns with proposed 2009 application?
- Comments on treatment of $35 million AltaLink payment?
- Reaction to compliance filing approach?
- Support for immediate interim settlement?
- Any value in written comment process on any aspects of stakeholder consultation?
- Any value in a technical meeting in late April (after application is filed in early April)?
- Any other options to make deferral account reconciliation process more efficient?
For More Information

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- Application on AESO web site at www.aeso.ca
  Tariff ► Current Applications ► 2009 Deferral Account Reconciliation