


**2009 Deferral Account Reconciliation
Technical Meeting**

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May 12, 2010 — Calgary



Agenda

- Objectives (slide 3)
- Summary and background (slides 4-10)
- Deferral account reconciliation methodology (slides 11-20)
- Summary of deferral accounts (slides 21 and 30-31)
- Significant variances (slides 22-29)
- Allocation to customers (slides 32-38)
- Responses to Commission directions (slides 39-41)
- Future deferral account reconciliations (slides 42-46)
- Application review process (slide 47)
- Discussion and questions

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Meeting Objectives



- Become familiar with application contents
- Develop understanding of how deferral account balances are determined and allocated to customers
- Understand amounts included in 2009 deferral account reconciliation application
- Develop understanding of AESO's responses to directions from prior decisions
- Clarify expectations for balance of this proceeding
- Respond to questions about application and methodology

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2009 Deferral Account Reconciliation Application



- On April 15, 2010, AESO filed a comprehensive deferral account reconciliation application for 2009
 - First reconciliation for 2009
 - Second reconciliation for 2008
 - Third reconciliations for 2007, 2006, 2005, and 2004
- Application included all transactions accounted for up to December 31, 2009 that related to 2009 and prior years
 - No new transactions related to years prior to 2004

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2009 Deferral Account Reconciliation Application (cont'd)



- Application followed model of 2008 and 2004-2007 applications
 - Sections for each year discussed cost variances, revenue variances, and deferral account balances
- Appendices included 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 are available on request to customers with more than one settlement point (in Microsoft Excel format)

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2009 Deferral Account Reconciliation Application (cont'd)



- AESO requested interim approval for immediate settlement of deferral account amounts with customers
- Commission asked parties to indicate in their statements of intent to participate (SIP) whether they supported or opposed immediate interim settlement
 - IPCAA and TransCanada expressed support
 - FortisAlberta and TransAlta stated they did not object
 - UCA did not comment

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What Was Filed in the Application?

Pages 8-9



- 1 Background and specific requests for approval
- 2 Summary of process
- 3 First reconciliation of 2009 deferral accounts
- 4 Second reconciliation of 2008 deferral accounts
- 5-8 Third reconciliations of 2007, 2006, 2005, and 2004 deferral accounts
- 9-10 Allocating, refunding, and collecting deferral account amounts
- 11 Responses to directions from prior decisions

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What Was Filed in the Appendices?


Page 9



- A Specified procedures report on 2008 deferral account reconciliation
- B-C Reconciliations to income statements and balance sheets
- D AESO annual reports
- E Miscellaneous reconciliations
- F Line loss charges
- G Summary of customer deferral account balances
- H Guide to report layouts
- I-K Detailed allocations to customers by month and year


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Background
Pages 5-7



Application	2009	2008	2004-2007
Reconciliations:			
• 1st Full	2009	2008	2004-2007
• 2nd Full	2008	2004-2007	2003
• 3rd Full	2004-2007	2003	—
• Adjustments	—	2001-2002	1999-2002
Filed	Apr 2010	Apr 2009	Jun 2008
Interim Settlement	Est. Jun 2010	Jun 2009	Jul 2008
Final Decision	Late 2010	Oct 2009	Jan 2009

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- Immediate Interim Settlement**
Pages 7-8
- 
- Net total 2004-2009 deferral account balance of \$1.8 million surplus based on transactions to December 31, 2009
 - Full regulatory review process will likely conclude in late 2010
 - Interim refundable settlement would provide prompt and accurate refund and collection of outstanding balances from customers
 - Interim approval by the end of May would allow settlement on invoices issued in June
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Deferral Account Characteristics

Table 2-1, page 17

Deferral Year	Reconciliation Basis	Adjustment Basis	Attribution Period	Allocation Year
2009	production	—	month	2009
2008	production	—	month	2008
2007	production	—	month	2007
2006	production	—	month	2006
2005	production	—	month	2005
2004	production	—	month	2004

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Deferral Account Balances

Table 2-4, Page 21

Surplus (Shortfall) After Rider C, \$ 000						
Year	Inter-connection	Losses	Operating Reserve	Voltage Control	OSS Services	Total
2009	(40,887)	/	38,999	3,981	(56)	2,037
Adjustments Since 2008 Reconciliation						
2008	(3,426)	/	50	(1,363)	(18)	(4,757)
2007	3,923	/	(14)	(491)	(13)	3,405
2006	1,492	/	(14)	10	(3)	1,485
2005	98	-	(210)	-	-	(112)
2004	(9)	-	(278)	-	-	(287)
Total	(38,809)	-	38,519	2,137	(90)	1,771

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Deferral Reporting System

Pages 23 and 24



- Deferral account applications prepared using a software program developed by the AESO specifically for this purpose
- Internal controls exist to ensure completeness and accuracy of the data and calculations
- Process controls ensure reconciliations between details and summaries, and between final reports and data sources
- Calculations embedded in reporting system have been manually tested and verified in detail

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Specified Procedures Review of System

Pages 23 and 24



- AESO contracted with independent third party (PricewaterhouseCoopers or PwC) in June 2009 to complete a specified procedures review of the AESO's deferral reporting system based on the 2008 deferral account reconciliation application
 - Copy of PwC final report is included in 2009 deferral account reconciliation application (Appendix A)
 - AESO considers PwC report supports and validates the accuracy of the deferral reporting system
 - PwC did not note any differences between their calculations and the 2008 AESO deferral account application

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Deferral Account Reconciliation Methodology



- Deferral account balance is actual costs less actual revenue
- Deferral account balances reconciled and allocated on a production month basis for each year in application
- Deferral account balances allocated to customers before Rider C and prior reconciliation amounts
 - Effectively “unwinding” prior cash flows to determine new balances by rate and rate category for each customer
 - Quarterly Rider C maintains deferral account balances at reasonable levels by collecting or refunding amounts prior to annual reconciliation

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Amounts Included in 2009 Deferral Account Reconciliation



Pages 12-15

- Data cut-off date of December 31, 2009
 - Preparation of 2009 application began in February 2010
 - Minimal effect on load customers from changes to transmission billing volumes between initial, interim, and final settlements
- For transmission system losses, only includes revenue and cost adjustments if prior to January 2006
 - No losses adjustments occurred during 2009 that applied to 2005 or prior years

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Amounts Not Included in 2009 Deferral Account Reconciliation

Page 15



- 2010 Q1 Rider C amounts do not apply to 2009
 - 2009 year-end balances carried forward to be settled through deferral account reconciliation
- Cost and revenue adjustments after December 31, 2009 are not included in 2009 application
- Net \$7.3 million shortfall related to 2009 and prior years has occurred since December 2009
 - \$5.4 million wires cost adjustment for AltaLink for 2009 interim rate true-up and 2006-2008 deferral accounts
 - \$2.0 million TMR adjustment for 2009 minimum true-up for ATCO Electric units

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Cost Variances

Pages 30-45



- 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

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Revenue Variances

Pages 45-46



- All revenue recorded by rate and rate component
- All “base rate” revenue assigned to production months in billing system
- Variances determined as differences between forecast and actual “base rate” revenue by rate and rate component
 - Forecast revenue calculated using rates in effect in each month times the forecast billing determinants for the month (excluding Rider C revenue)

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Deferral Account Balances

Pages 46-48



- 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 is not true for 2007, 2008, and 2009
- 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 for variances arising since the reconciliations filed in 2008 deferral reconciliation application

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Summary of Net Deferral Accounts, \$ 000 000						
Table 2-4, Page 21						
	2009	2008	2007	2006	2005	2004
Interconnection	\$528.6	(\$0.8)	(\$0.3)	\$0.0	—	—
Losses	—	—	—	—	—	—
Operating Reserve	98.4	(0.0)	(0.0)	(0.0)	—	—
Voltage Control	45.4	(0.0)	0.0	0.0	—	—
Other System Support	7.9	(0.0)	(0.0)	(0.0)	—	—
Total Revenue	680.3	(0.9)	(0.3)	0.0	—	—
Wires	(569.9)	(2.6)	4.2	1.4	0.0	(0.0)
Ancillary Services	(132.8)	(1.3)	(0.5)	0.1	(0.1)	(0.3)
Losses	—	—	—	—	—	—
Other Industry	(14.2)	—	—	—	—	—
General & Admin	(58.2)	—	—	—	—	—
Total Costs	(775.1)	(3.9)	3.7	1.5	(0.1)	(0.3)
Surplus (Shortfall)	(94.8)	(4.8)	3.4	1.5	(0.1)	(0.3)
Rider C Collection	96.8	—	—	—	—	—
Net Surplus (Shortfall)	\$2.0	(\$4.8)	\$3.4	\$1.5	(\$0.1)	(\$0.3)

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Thresholds for Variance Explanations		
Production Year		Variance Explanation Threshold
2009	First Reconciliation	<ul style="list-style-type: none"> • \pm\$6.0 million variance, or • at least \pm\$0.6 million and at least \pm10% of forecast
2008	Second Reconciliation (half of first)	<ul style="list-style-type: none"> • \pm\$2.5 million variance, or • at least \pm\$0.25 million and at least \pm5% of forecast
2007	Third Reconciliation (one-third of first)	<ul style="list-style-type: none"> • \pm\$1.3 million variance, or • at least \pm\$0.13 million and at least \pm3% of forecast
2006 2005 2004	Third Reconciliation (one-third of first)	<ul style="list-style-type: none"> • \pm\$1.0 million variance, or • at least \pm\$0.1 million and at least \pm3% of forecast
<p><i>First reconciliation explanation thresholds are based on about 10% of each year's general and administrative costs component of the AESO's revenue requirement</i></p>		

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Summary of Significant Cost Variances		
Year	Component	Variance Description
2009	Wires	<ul style="list-style-type: none"> AltaLink wires: \$35.0 million (15%) more than forecast due to Commission Decision 2009-151 for the cancelled Genesee-Langdon 500 kV project ATCO Electric isolated generation credit: \$6.0 million (65%) less than forecast due to inappropriate basis for forecast credit ENMAX Power wires: \$4.6 million (15%) more than forecast due to Commission Decision 2009-084 approving 2009 TFO tariff on an interim basis

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2009	Ancillary Services	<ul style="list-style-type: none"> Operating reserves: \$133.4 million (57%) less than forecast primarily due to pool price being significantly lower than forecast, as well as larger discounts compared to previous years Black start service: \$1.3 million (44%) lower than forecast due to additional service providers not materializing during 2009 Transmission must-run: \$12.9 million (35%) lower than forecast in 2009 due primarily to lower than forecast pool prices and natural gas prices

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2009	Ancillary Services (cont'd)	<ul style="list-style-type: none"> Under frequency mitigation: \$1.8 million (40%) less than forecast due the withdrawal of one service provider
2009	Other Industry	<ul style="list-style-type: none"> External regulatory costs: \$5.6 million (95%) less than forecast due primarily to fewer regulatory proceedings than forecast WECC: \$0.7 million (24%) more than forecast due to increase in fees
2009	General and Admin	<ul style="list-style-type: none"> Consultants: \$1.2 million (14%) more than forecast due to utilization of consultants

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2009	General and Admin (cont'd)	<ul style="list-style-type: none"> Other administrative: \$0.6 million (25%) more than forecast primarily due to increased costs related to public education and consultation and increased costs for recruiting Interest: \$0.9 million (50%) less than forecast due to reduced borrowing rates and an increase in working capital surpluses throughout the year. Amortization and depreciation: \$2.3 million (31%) less than forecast primarily due to purchasing or commissioning of assets being completed in the last few months of the year

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2009	Capital	<ul style="list-style-type: none"> • General capital: \$0.9 million (13%) less than forecast due to slower than anticipated capital infrastructure development and acquisition during 2009 • Dispatch tool re-architecture: \$0.7 million (44%) more than forecast due to complexities associated with integrating the dispatch tool into other AESO systems

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2008	Wires	<ul style="list-style-type: none"> • KEG unit transformers conversion: \$2.2 million (66%) additional costs paid in 2009 attributed to 2008
2007	Wires	<ul style="list-style-type: none"> • Additional wire costs of \$4.3 million incurred in 2009 related to 2007 due to ATCO Electric's deferral account reconciliation adjustments of \$3.8 million (Decision 2009-087) and \$0.3 million from the settlement of TransAlta's 2007 deferral accounts (Decision 2009-151)
2006	Wires	<ul style="list-style-type: none"> • 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)

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Summary of Significant Cost Variances (cont'd)		
Year	Component	Variance Description
2005	Wires	<ul style="list-style-type: none"> \$0.1 million (3%) reduction from the settlement of TransAlta's 2005 deferral accounts (Decision 2009-151)
2006 and 2005	Ancillary Services	<ul style="list-style-type: none"> Interruptible Load Remedial Action Scheme (ILRAS): \$0.1 million (8%) less (in each year) due to final settlement on contracts with BCTC

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2009 Deferral Account Summary				
Tables 3-1 (Page 33), 3-2 (Page 45), and 3-3 (Page 47)				
Demand Transmission Service	Forecast	Recorded	Variance	
	\$ 000 000	\$ 000 000	\$ 000 000	%
Total Revenue	\$759.5	\$680.3	(\$79.2)	(10.4%)
Total Costs	(885.9)	(775.1)	110.8	(12.5%)
Surplus (Shortfall)	(\$126.4)	(\$94.8)	\$31.6	(25.0%)
Rider C Collection	—	96.8	96.8	—
Net Surplus (Shortfall)	(\$126.4)	\$2.0	\$128.4	(101.6%)

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Summary of Deferral Account Balances After Rider C, \$ 000 000						
Table 2-2, Page 18						
	2009	2008	2007	2006	2005	2004
Total Revenue	\$680.3	\$737.2	\$685.2	\$700.6	\$831.9	\$757.9
Total Costs Paid	(775.1)	(880.2)	(739.3)	(700.9)	(850.2)	(691.3)
Surplus (Shortfall)	(\$94.8)	(\$142.9)	(\$54.2)	(\$0.2)	(\$18.3)	\$66.6
Rider C Collection	96.8	133.5	58.1	15.1	18.7	(72.1)
Prior Reconciliation	–	4.6	(0.5)	(13.4)	(0.4)	5.2
Net Surplus (Shortf'l)	\$2.0	(\$4.8)	\$3.4	\$1.5	(\$0.1)	(\$0.3)

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Allocation to Customers	
Pages 96-98	
<ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • No losses adjustments included in this application • Rider C amounts applied after deferral account balances allocated to customers 	

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Individual Customer Amounts

Pages 96-98 and Appendices G-K



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

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Billing of Customer Amounts

Pages 97 - 98




- 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 March 31, 2010 when reports were finalized
- GST will be applied at current rate of 5%

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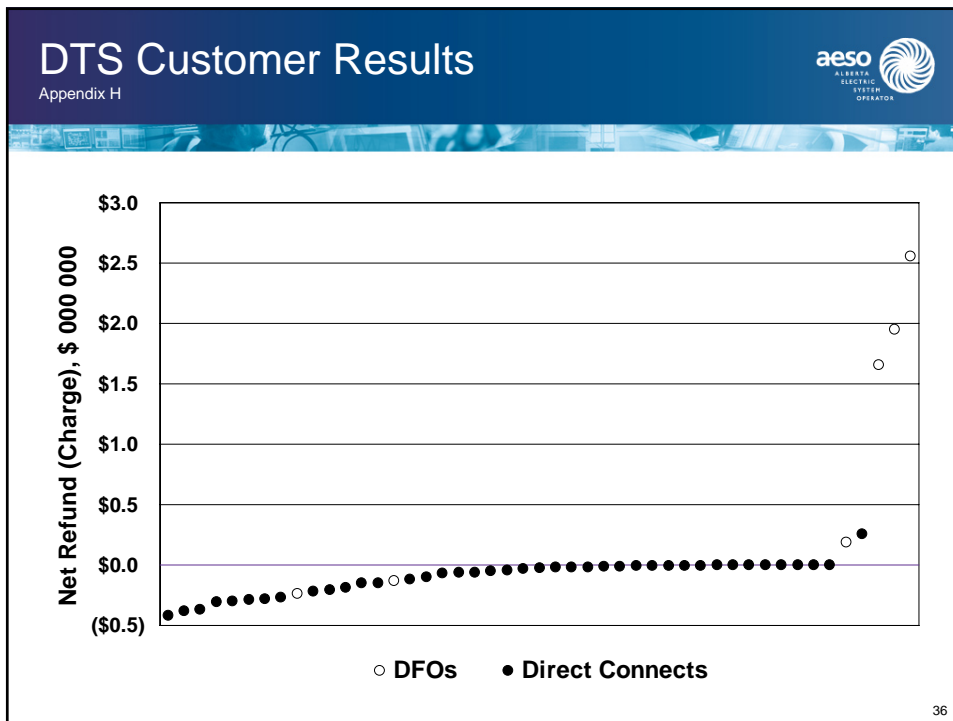
DTS and STS Customer Results

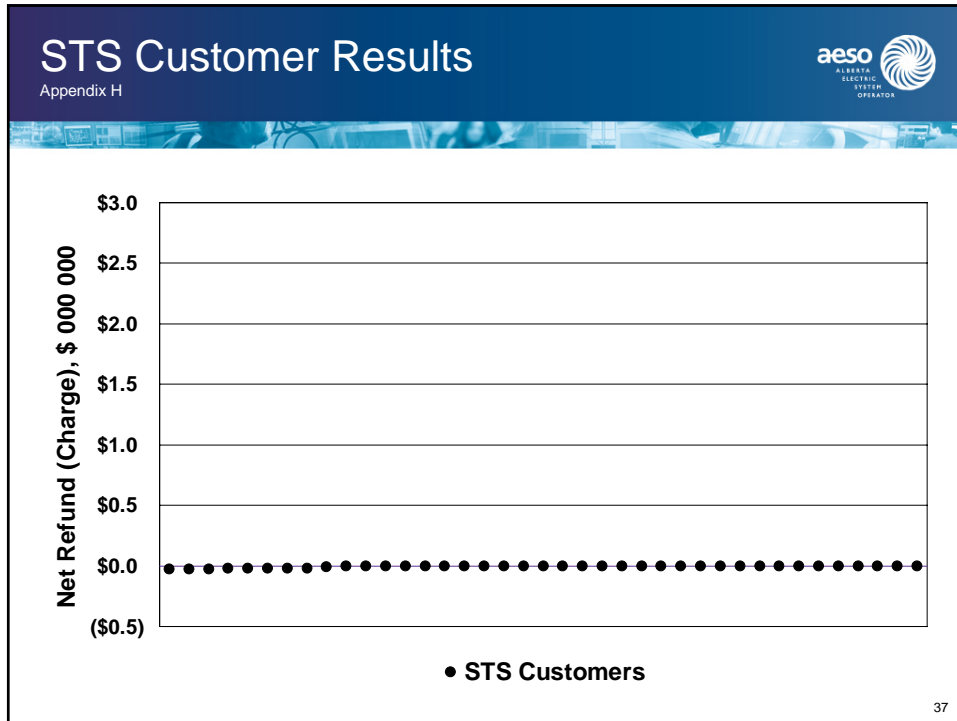
Table 10-1, Page 100



Range of Refunds and Charges	Number of Customers			Total Amount, \$ 000 000			
	DFO	Non-DFO	STS	DFO	Non-DFO	STS	Total
Refund > \$2,000,000	1	-	-	\$2.6	-	-	\$2.6
Refund \$1,000,000 – \$2,000,000	2	-	-	3.6	-	-	3.6
Refund \$500,000 – \$1,000,000	-	-	-	-	-	-	-
Refund \$100,000 – \$500,000	1	1	-	0.2	0.3	-	0.4
Refund \$50,000 – \$100,000	-	-	-	-	-	-	-
Refund \$0 – \$50,000	-	1	2	-	0.0	0.0	0.0
Subtotal Refunds	4	2	2	\$6.3	\$0.3	\$0.0	\$6.6
Charge \$0 – \$50,000	-	20	37	-	(0.2)	(0.2)	(0.5)
Charge \$50,000 – \$100,000	-	4	-	-	(0.2)	-	(0.2)
Charge > \$100,000	2	15	-	(0.4)	(3.8)	-	(4.1)
Subtotal Charges	2	39	37	(\$0.4)	(\$4.2)	(\$0.2)	(\$4.8)
Total Refunds and Charges	6	41	39	\$6.0	(\$4.0)	(\$0.2)	\$1.8

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- ### Refunding and Collecting
- Pages 99 - 100
- Settlement through one-time payment and collection
 - In case of financial burden, 3-month payment option
 - AESO proposed interim refundable settlement as soon as possible
 - Parties requested to comment in their SIPs
 - Settlement in June if approval received by end of May
 - Subject to adjustment in final decision on 2009 deferral account reconciliation application, expected in late 2010
 - AESO suggests any adjustments be included in 2010 reconciliation application, to be filed in Q2 of 2011
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Responses to Commission Directions

Pages 101 - 104



- \$35 million payment to AltaLink for costs incurred for cancelled Genesee-Langdon 500 kV project
 - Commission directed AltaLink to give effect to the \$35 million backstop arrangement with AESO
 - Payment made by AESO on December 31, 2009
 - Commission dismissed AESO's request to review and vary their findings with respect to the direction to pay
- AltaLink included costs in its refiling of its 2009-2010 transmission tariff pursuant to Decision 2009-151
- AltaLink received interim approval in Commission Decision 2010-054

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Responses to Commission Directions (cont'd)

Pages 101 - 104



- Remaining balance of KEG transformer conversion project costs included in 2009 deferral account reconciliation application
 - In Decision 2009-191, Commission directed AESO to include any final cost balances, not already accounted for, in its next deferral account application
- AESO received and paid one invoice in addition to those accounted for in the 2008 deferral account reconciliation application
- Additional cost of \$2.2 million paid in 2009 has been attributed to 2008

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Responses to Commission Directions (cont'd)

Pages 101 - 104



- In Decision 2009-191, Commission expressed concerns about number of times that additional reconciliations are required for deferral account years that have already been considered
- AESO investigated and consulted on changes to simplify and improve the efficiency of the preparation and review of deferral account reconciliation applications
- Process review fits best within a deferral account reconciliation application rather than tariff application
 - Changes may potentially be implemented earlier than if in a tariff application

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Future Deferral Account Reconciliations

Page 25 - 29



- Considered and rejected “termination and roll-up” approach
 - Reduction in precision (especially for STS-related amounts)
 - Lack of transparency
 - Minimal reduction to time and resource requirements
 - Material adjustments may require re-reconciliation of a terminated year

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Future Deferral Account Reconciliations

(cont'd) Page 25 - 29



- While deferral account balances remain relatively large and volatile, an alternative process would be impractical
- Proposed three changes in the 2010 tariff application that may reduce the size and volatility
 - Use of “reasonably expected” TFO wires costs for forecast year’s revenue requirement
 - Hourly allocation of operating reserve costs
 - Annual updates of rate levels between comprehensive tariff applications

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Future Deferral Account Reconciliations

(cont'd) Page 25 - 29



- Opportunity to modify the review and approval process
 - Calculation and allocation methodology is approved for the initial reconciliation and that same approach is used in all subsequent reconciliations of the same year
 - Assurance can be provided with a formal compliance review completed by a third party
 - May be prudent to rely on such a compliance review when deferral account balances are less than a specific materiality threshold (less than 1% of the annual revenue requirement subject to deferral account reconciliation)

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Future Deferral Account Reconciliations

(cont'd) Page 25 - 29



- AESO suggested a compliance review approach
 - Would be practical and efficient to include confirmation that the first reconciliation of a deferral account year follows the calculation and methodology
 - Compliance review would cover all deferral account reconciliations included in an application
 - AESO would retain the right to request Commission approval of any specific deferral account re-reconciliation
 - Estimated cost between \$100,000 and \$200,000
 - Assuming no compliance concerns were identified, financial settlement would occur on an interim basis without specific Commission approval

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Future Deferral Account Reconciliations


(cont'd) Page 25



- AESO requested approval to use a compliance review approach for the 2010 deferral account reconciliation application
- Discussed with stakeholders the possibility of a negotiated settlement process
 - Stakeholders were concerned they could only assess the accuracy of the calculations and the allocation methodology with respect to their own accounts
 - No individual customer could examine the overall reasonableness of the deferral account reconciliation application due to confidentiality of account information for other customers

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Application Review Process



- Filed application on April 15, 2010
- Statements of intent to participate on April 30, 2010
- Technical meeting on May 12, 2010
- Information requests to AESO in early June 2010
- IR responses from AESO in late June 2010
 - Assume no intervener evidence, IRs to interveners, rebuttal evidence, second round of IRs, or oral hearing
- Argument and reply argument in July 2010
- Decision in late October 2010

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Discussion and Questions



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For More Information



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Tariff ► Current Applications ► 2009 Deferral Account
Reconciliation

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