Alberta Electric System Operator
2010-2011 Deferral Account Reconciliation Argument

Date:        July 17, 2011
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               Application No. 1608444, Proceeding ID No. 1878
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1 Application


2 As summarized in section 1.4 (pages 11-12, paragraph 48) of the Application, the AESO requests approval of the first reconciliations of deferral accounts for 2011 and 2010, of the second reconciliation of deferral accounts for 2009, of the third reconciliation of deferral accounts for 2008, and of the fourth reconciliations of deferral accounts for 2007, 2006, 2005, and 2004.

3 The AESO also requests approval of the allocation methodology for recovering and refunding outstanding variance amounts from and to market participants receiving system access service under Rate DTS, Rate FTS, or Rate STS of the ISO tariff, 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 as discussed in more detail in section 4 of this argument.

4 Finally, the AESO requests approval of the continuation of annual retrospective reconciliation of adjustments to losses relating to years prior to 2006.

5 The Application addresses a total deferral account shortfall balance of $1.6 million as summarized in Table 2-3 (page 18) of the Application. The annual deferral account amounts net of Rider C charges and refunds are:
   - a surplus of $13.0 million from the first reconciliation of the deferral accounts for 2011,
   - a shortfall of $16.6 million from the first reconciliation of the deferral accounts for 2010,
   - a shortfall of $12.6 million from the second reconciliation of the deferral accounts for 2009,
   - a surplus of $10.0 million from the third reconciliation of the deferral accounts for 2008,
   - a surplus of $4.1 million from the fourth reconciliation of the deferral accounts for 2007,
   - a surplus of $0.3 million from the fourth reconciliation of the deferral accounts for 2006,
   - a surplus of $0.3 million from the fourth reconciliation of the deferral accounts for 2005, and
   - a shortfall of $0.01 million from the fourth reconciliation of the deferral accounts for 2004.

6 The process established for the review of the Application included opportunities for information requests and for the submission of intervener evidence. Information requests were received from:
   - the Commission;
   - the Consumers’ Coalition of Alberta (CCA); and
   - EPCOR Distribution & Transmission Inc. (EDTI).

7 The AESO responded to the information requests from interveners on June 26, 2012. No intervener evidence was submitted.

8 The AESO provides the following written argument on matters addressed in the Application and raised in information requests. Lack of comment on any specific matter does not necessarily indicate lack of materiality or significance of that matter. In particular, if an information request simply asked for additional information or did not suggest an approach that differed from the AESO’s proposals, that request 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

As discussed in section 1.1 (pages 6-8) of the Application, the AESO’s approved tariffs which were in place from 2004 through 2011 have included the use of deferral accounts. 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 (Act). Deferral accounts allow the AESO to address differences between actual revenues and costs incurred in providing system access service to market participants, and are specifically provided for in subsections 122(2) and 122(3) of the Act.

The reconciliation of AESO deferral account balances and the associated allocation of those balances to market participants have previously been addressed:
- by the Alberta Energy and Utilities Board in Decision 2003-099 for 2000, 2001, and 2002 and Decision 2005-034 for 2003; and

Under the deferral account methodology most recently approved 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.


The deferral account reconciliations, prior period adjustments, and allocations to market participants 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 2009, 2008, and 2004-2007 deferral account reconciliation applications.

As discussed in section 2.1 (pages 13-14) 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 2011 or prior years for all costs except those related to losses and to 2005 or prior years for costs related to losses; and
- have been accounted for up to December 31, 2011.

The Application includes some significant amounts that are attributed to periods prior to 2010 under the production month presentation used in the Application. Those amounts are discussed in detail in the relevant production year sections of the Application.

Effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation as was the case for 2005 and prior years. Since 2006, losses have instead been subject to prospective adjustment through Calibration Factor Rider E. However, the Application includes a reduction to the cost of losses in 2005 related to an adjustment to energy market settlement data attributed to that year. The deferral account balance resulting from that reduction is reconciled in the Application and is allocated to market participants receiving system access service under Rate STS during 2005.
Any adjustments relating to 2011 or prior years which occurred after December 31, 2011 are not included in the Application, and will be addressed in a future deferral account reconciliation application.

As explained in section 2.2 (pages 17-18) of the Application, all revenues, costs, and adjustments included in the Application are presented on a production month basis, with two exceptions.

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”.

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.

No information requests raised concerns with the accuracy of 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.
3 Cost and Revenue Variances

The Application includes sections detailing the financial results and deferral account balances for each deferral account year addressed in the Application.

Section 3 and 4 (pages 28-55) of the Application first discuss variances of costs from the AESO’s approved revenue requirement for 2011 and 2010, respectively. An explanation of a line item cost variance for 2011 or 2010 is provided when it:

- exceeds approximately ±10% of the amount of the general and administrative costs component of the AESO’s revenue requirement, or
- is smaller than ±10% of the amount of the general and administrative costs component but is at least ±1% of that amount and at least ±10% of the approved line item amount itself.

For the second reconciliation of the 2009 deferral accounts included in section 5 (pages 56-63) of the Application, those threshold levels have been reduced by half. An explanation of a line item cost variance for 2009 is therefore provided when it:

- exceeds approximately ±5% of the amount of the general and administrative costs component of the AESO’s revenue requirement, or
- is smaller than ±5% of the amount of the general and administrative costs component but is at least ±0.5% of that amount and at least ±5% of the approved line item amount itself.

For the third reconciliation of the 2008 deferral accounts included in sections 6 (pages 64-71) 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 2008 is therefore provided when it:

- exceeds approximately ±3% of the amount of the general and administrative costs component of the AESO’s revenue requirement, or
- is smaller than ±3% of the amount of the general and administrative costs component but is at least ±0.3% of that amount and at least ±3% of the approved line item amount itself.

Finally, for the fourth reconciliations of the 2007, 2006, 2005, and 2004 deferral accounts included in sections 7 (pages 72-79), 8 (pages 80-86), 9 (pages 87-94), and 10 (pages 95-100) of the Application respectively, those threshold levels have been reduced to one-quarter of the first reconciliation levels. That is, an explanation of a line item cost variance for 2007, 2006, 2005, or 2004 is therefore provided when it:

- exceeds approximately ±2% of the amount of the general and administrative costs component of the AESO’s revenue requirement, or
- is smaller than ±2% of the amount of the general and administrative costs component but is at least ±0.2% of that amount and at least ±2% of the approved line item amount itself.

As explained in section 2.4 (pages 19-22) 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 2011 and 2010. As well, where significant adjustments to 2009 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.

Information requests AUC-AESO-003, CCA-AESO-001, CCA-AESO-002, and CCA-AESO-003 asked for additional information about forecast and actual costs and resulting variances for contract services and consultants, staffing-related costs, and capital costs. The AESO’s responses to those information requests reveal no errors or imprudence with respect to those costs in the Application, and no corrections are required as a result of the additional information provided.
4 Allocation to and Settlement With Market Participants

Deferral account balances and adjustments in the Application are allocated to market participants as in previous deferral account reconciliation applications. The allocation to market participants is discussed in section 11.1 (pages 101-102) of the Application.

The 2004 to 2011 deferral account balances (except for losses) are allocated to individual market participants based on each market participant’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.

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 market participants for 2006 through 2011.

Deferral account balances associated with losses for 2004 and 2005 are allocated to individual market participants based on each market participant’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.

After deferral account balances are allocated to each market participant, additional revenue already paid by or refunded to each market participant (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 market participant on a production month basis, by rate and rate component.

In section 11.2 (page 102) of the Application, the AESO explains that the results of the deferral account allocation for each market participant who received system access service under Rate DTS, Rate FTS, or Rate STS have been included in Appendices F, H, I, and J, in annual market participant summaries and market participant allocation detail. Market participant confidentiality has been protected by assigning a number to each AESO direct-connect market participant as had been done in previous deferral account reconciliation applications. After filing the Application, the AESO distributed to each market participant the applicable market participant and generator numbers for the deferral account reconciliation years included. The AESO also provided to any market participant on request deferral account allocation data for each of the market participant’s settlement points, in Microsoft Excel format.

The AESO further explains that, where a market participant assigned its system access service agreement to another market participant (the “assignee”) in accordance with the ISO tariff, the deferral account allocation is applied to the account of the assignee, and the applicable market participant and generator numbers were provided only to the assignee.

As discussed in section 2.6 (pages 24-25) of the Application, the allocation of deferral account balances to market participants involves a large volume of data on which many calculations are performed, and provides limited ability for market participants to assess and verify any aspects of the reconciliation beyond the calculations applicable to their individual accounts. In recognition of such considerations, the AESO included with its 2009 deferral account reconciliation application a report prepared by PricewaterhouseCoopers on specified procedures to assess the accuracy of the data sorting and calculations performed in the deferral reporting system to determine and allocate deferral account balances to individual market participants. PricewaterhouseCoopers had been contracted by the AESO in 2009 to complete the specified procedures on the AESO’s 2008 deferral account reconciliation application as previously filed with the Commission. The PricewaterhouseCoopers report supported and validated the accuracy of the deferral reporting system and related AESO processes.
Information request AUC-AESO-001 asked for additional information about audits, reviews, and procedures the AESO conducts for deferral account reconciliations. The AESO’s response explained that it completes extensive internal testing when updating the deferral reporting system for preparation of an application, and for this Application the AESO included enhancements to further automate the internal testing. Given this extensive and enhanced testing and the lack of any identified issues or concerns with the results of the deferral reporting system, the AESO currently has no plans to contract for additional third-party reviews of the deferral reporting system.

In section 11.3 (pages 102-103) of the Application, the AESO explains that it anticipates it may be unable to collect or refund deferral account allocations to two market participants, resulting in a net “uncollectible” $200 refund arising from the 2010-2011 deferral account reconciliation. Although the AESO will pursue the collection or refund of amounts from or to those market participants, in the event the amounts are uncollectible the AESO proposes to add or subtract those amounts to or from the relevant cost category in 2012, with the amounts then collected from or refunded to other market participants as part of the AESO’s 2012 deferral account balances. The AESO will monitor and report uncollectible amounts in future deferral account reconciliation applications, and will review its approach if such uncollectible amounts become significant in magnitude.

Finally, the AESO states in section 11.4 (pages 103-104) 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.

In summary, the allocation of deferral account balances and adjustments to market participants 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 market participants should be approved as filed.

As described in section 12 (pages 105-106) 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, 2004-2007, 2008, and 2009 deferral account reconciliations. If one-time collection presents a financial burden to a market participant, the AESO considers it reasonable to offer a three-month payment option, including carrying charges, as has been offered to market participants in previous deferral account reconciliations.

At the time the Application was filed (on May 11, 2012), the AESO requested that the charges and refunds due to market participants be settled as soon as possible on an interim refundable basis. However, the AESO is aware of Commission Bulletin 2012-03 (issued on March 13, 2012) which sets out the Commission’s approach to the Alberta Minister of Energy’s request to maintain electricity rates. Settlement of the Application will result in the collection of a $1.6 million net shortfall from market participants, which the AESO considers to be a “rate increase” for the purposes of Commission Bulletin 2012-03. The AESO accordingly expects that the Commission will not issue a decision approving such collection, on either an interim or final basis, until the Government of Alberta responds to the Retail Market Review Committee’s recommendations as outlined in Bulletin 2012-03.

The timing of the Government’s response to the Committee’s recommendations is not yet known. The AESO accordingly requests the Commission consider interim approval in the context of Bulletin 2012-03. If interim approval would be delayed in accordance with Bulletin 2012-03 such that final approval would follow shortly after, it may be appropriate to pass over interim approval in favour of proceeding directly to final approval. Upon receiving approval to settle the deferral account amounts in this application on either an interim or final basis, the AESO would generally be able to financially settle those amounts with market participants in the month following that in which approval is granted.
The AESO notes that any amounts settled on an interim refundable basis would be 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 2012 deferral account reconciliation application expected to be filed in the second quarter of 2013.
5 Future Deferral Account Reconciliations

In section 2.8 (pages 26-27) of the Application, the AESO explains that it expects to utilize the same approach in future deferral account reconciliations as in the current Application, namely:

- to use the deferral account reconciliation software program,
- to base the reconciliation and allocation on a December 31 data cut-off date and initial settlement volumes,
- to exclude year-end balances from the calculation of first quarter Rider C for the following year, and
- to begin preparation of deferral account reconciliation applications in February of each year.

The AESO is not seeking any approval or direction on these matters for future deferral account reconciliations at this time.

In accordance with the Commission’s comments in Decision 2011-049 on the AESO’s 2009 deferral account reconciliation, the AESO will consult on changes to its deferral account rider and reconciliation methodology and report on those changes at the time of its next comprehensive tariff application, to be filed by March 31, 2013. Until that consultation and report are complete, the AESO intends to continue to file annual deferral account reconciliation applications in accordance with the expectations summarized above and consistent with the reconciliation methodology used and described in this Application.

In information request EDTI-AESO-001, EPCOR asked about measures to reduce the magnitude and volatility of variances of prior-period adjustments for individual market participants. The AESO explained that:

- all prudently-incurred adjustments to its costs and revenues must be subject to deferral account treatment without limitation;
- use of Rider C or other similar deferral account adjustment mechanism is the most appropriate measure to reduce the impact of prior-period adjustments on market participants in general; and
- potential changes to the design of Rider C, including either a change to the billing determinant basis for Rider C or a change to prospective reconciliation, may reduce the reallocation of deferral account balances to market participants and will be discussed with stakeholders and reported on in the AESO’s next comprehensive tariff application.

In summary, the AESO is not seeking any decision in the current proceeding in respect of its 2012 deferral account reconciliation application. Any proposed changes to the deferral account reconciliation process or the design of Rider C resulting from future consultation with stakeholders will be applied for in the AESO’s next comprehensive tariff application.
6 Conclusion

50 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 2010-2011 deferral account reconciliation application.

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

52 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 11-12) of the Application should be granted in full.