Alberta Electric System Operator
2012 Deferral Account Reconciliation Argument

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1 Application

On August 29, 2013, the Independent System Operator, operating as the Alberta Electric System Operator (AESO), filed its 2012 Deferral Account Reconciliation Application (Application) with the Alberta Utilities Commission (Commission).

As summarized in section 1.4 (pages 10-11, paragraph 42) of the Application, the AESO requests approval of the first reconciliation of deferral accounts for 2012, the second reconciliations of deferral accounts for 2011 and 2010, the third reconciliation of deferral accounts for 2009, the fourth reconciliation of deferral accounts for 2008, and the fifth reconciliations of deferral accounts for 2007, 2006, and 2005.

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.

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

The Application addresses a total deferral account surplus balance of $7.5 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 $5.6 million from a first reconciliation of the deferral accounts for 2012,
- a surplus of $1.9 million from a second reconciliation of the deferral accounts for 2011,
- a shortfall of $0.2 million from a second reconciliation of the deferral accounts for 2010,
- a surplus of $0.02 million from a third reconciliation of the deferral accounts for 2009,
- a surplus of $0.1 million from a fourth reconciliation of the deferral accounts for 2008,
- a surplus of $0.05 million from a fifth reconciliation of the deferral accounts for 2007,
- a surplus of $0.04 million from a fifth reconciliation of the deferral accounts for 2006, and
- a surplus of $0.02 million from a fifth reconciliation of the deferral accounts for 2005.

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; and
- the Consumers’ Coalition of Alberta (CCA).

The AESO responded to the information requests on October 17, 2013. No intervener evidence was submitted.

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 6-7, paragraphs 5-10) of the Application, the AESO’s approved tariffs which were in place from 2005 through 2012 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 2012, 2011, 2010, 2009, 2008, 2007, 2006, and 2005 deferral account reconciliations included in the Application were prepared on a retrospective, monthly, and production month basis, consistent with the method used in previous reconciliations since 2004 as previously reviewed and approved by the Commission in the decisions mentioned above.

The deferral account reconciliations 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 software program had also been used to prepare the AESO’s previous deferral account reconciliation applications since 2004.

As discussed in section 2.1 (pages 12-13, paragraphs 45-57) 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 2012 or prior years for all costs except those related to losses and to provision of a wind forecasting service, and to 2005 or prior years for costs related to losses; and
- have been accounted for up to December 31, 2012.

The Application includes some significant amounts that are attributed to periods prior to 2012 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 Rider E, Losses Calibration Factor Rider. During 2012 there were no cost or revenue transactions by the AESO related to losses for 2005 or prior years, and there are no variances with respect to losses costs or losses revenues included in the deferral account balances in the Application.

Any adjustments relating to 2012 or prior years which occurred after December 31, 2012 are not included in the Application, and will be addressed in a future deferral account reconciliation application.
As explained in section 2.2 (pages 16-17, paragraphs 71-77) 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 (pages 27-41) of the Application first discusses variances of costs from the AESO’s approved revenue requirement for 2012. An explanation of a line item cost variance for 2012 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 2011 deferral accounts included in section 4 (pages 42-49) of the Application, those threshold levels are reduced by half. An explanation of a line item cost variance for 2011 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 second and subsequent reconciliations of the deferral accounts for 2010 and prior years included in sections 5 through 10 (pages 50-80) of the Application, no cost adjustments (excluding those related to losses and to provision of a wind forecasting service) occurred during 2012. All cost transactions related to 2010 and prior years have therefore been included and approved in previous deferral account reconciliation applications for those years.

As explained in section 2.4 (pages 22-23, paragraphs 87-95) 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 2012. As well, where significant adjustments to 2011 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.

In the Application (section 2.4, page 22, paragraphs 89-91) and in information response CCA-AESO-001(c), the AESO discussed the approach it takes to review and monitor costs while accomplishing its business priorities and plans and meeting its legislated mandate. The approach includes:
- monthly management reviews of financial results, goal achievement, and human resource statistics;
- controls and procedures to approve additional expenditures, adjust timing, or reduce scope when budgets and forecast costs do not fully accommodate actual costs;
- the budget review and approval process, developed in consultation with stakeholders; and
- on-going efforts to improve consistency and transparency of cost treatment.

Information requests AUC-AESO-001, -002, -003, and -004 and CCA-AESO-001 and -002 asked for additional information about forecast and actual costs and resulting variances for staff and benefits, contract services and consultants, regulatory process costs, amortization expense, transmission must-run (TMR) costs, and load shed service for imports (LSSI) 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.

Each annual section of the Application also explains revenue variances from forecast (for 2012) and from recorded amounts in previous deferral account reconciliations (for 2011 and prior years). Revenue variances are determined by rate and rate component and exclude amounts related to Rider C, Deferral Account Adjustment Rider. On an annual basis, transmission revenue depends on approved transmission
tariff rates, operating reserve costs, and billed volumes of demand and energy. Variances arise due to unanticipated changes from forecasts of billing volumes, pool price, and operating reserve costs.

Finally, each annual section of the Application discusses the deferral account balances that result from the cost and revenue variances during each year. Deferral account balances are determined by rate and rate component and include Rider C amounts, which collect or refund revenue to align actual revenues with actual costs by rate and rate component.

Rider C collections and refunds generally maintained the annual deferral account balances at reasonable levels in aggregate and for some rate components. However, the AESO notes that larger deferral account balances resulted for some rate components due to the requirement to maintain electricity rates implemented through Commission Bulletin 2012-03 (issued on March 13, 2012, in response to the Alberta Minister of Energy’s request). Rider C was maintained throughout 2012 at the level originally determined for January to March, which limited the AESO’s ability to vary Rider C to reduce deferral account balances during the remaining months of 2012.

No information requests raised concerns with the revenue variances or deferral account balances presented in the Application.
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 (page 81, paragraphs 423-427) of the Application.

The 2005 to 2012 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 2012.

The deferral account balance associated with losses for 2005 remains subject to retrospective deferral account reconciliation and is included in the Application. However, no cost or revenue adjustments related to losses in 2005 occurred during 2012. Therefore, there was no deferral account balance associated with losses to be allocated to market participants in the Application.

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 (pages 81-82, paragraphs 428-431) 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, Demand Transmission Service, Rate FTS, Fort Nelson Demand Transmission Service, or Rate STS, Supply Transmission Service, was 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.

In section 11.3 (pages 82-83, paragraphs 432-438) of the Application, the AESO explains that it was unable to collect or refund deferral account allocations to market participants no longer operating in Alberta. To date, a net “uncollectible” $201 refund has resulted from deferral account reconciliations for 2009 through 2012, of which a $566 uncollectible charge has been included as a 2012 adjustment in the Application. Although the AESO will pursue the collection or refund of such amounts from or to individual market participants, the AESO anticipates that further small “uncollectible” amounts will be included in future deferral account reconciliation applications. The AESO will monitor and report uncollectible amounts in those future applications, and will review its approach if such uncollectible amounts become significant in magnitude.
Finally, the AESO states in section 11.4 (page 84, paragraphs 439-441) 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 prior 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 August 29, 2013), the AESO requested that the charges and refunds due to market participants be settled as soon as possible on an interim refundable basis.

The Commission issued Decision 2013-370 on October 4, 2013, approving the interim distribution of the deferral account balances as proposed in the Application. The AESO will include the charges and refunds on final statements for October 2013, which will be issued to market participants on November 22, 2013. The AESO will advise the Commission when the deferral account amounts have been financially settled with market participants, as ordered in Decision 2013-370.

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 2013 deferral account reconciliation application expected to be filed before or in the third quarter of 2014.
5 Future Deferral Account Reconciliations

In section 2.8 (pages 24-26, paragraphs 110-117) of the Application, the AESO explains that it expects to continue to file annual deferral account reconciliation applications in accordance with the expectations in its 2008 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 consulted briefly with stakeholders on future deferral account reconciliations in deferral account consultation on April 3, 2012 and in general tariff consultation on November 20, 2012. In section 13 (page 88, paragraphs 454-455) of the Application, the AESO responds to the Commission’s direction in Decision 2011-049 and summarizes information provided in the AESO's 2014 ISO tariff application. The AESO notes it had investigated potential causes of individual charges and refunds being large compared to the net deferral account balance. The AESO concludes that the charges and refunds to individual market participants that result from deferral account reconciliations reflect the interaction of the different bases for Rider C and rate components, timing differences, and forecast variances. There do not appear to be any straightforward changes to Rider C that would materially reduce the magnitude of the reconciliation charges and refunds. The AESO accordingly did not recommend any changes to the design of Rider C in its 2014 tariff application.

In information request AUC-AESO-005, the Commission asked about process changes that would allow final numbers to be set and not require continuing adjustments. In its response, the AESO explains:

- the allocation approach does not affect how distribution system owners recover deferral account amounts from distribution-connected consumers;
- the allocation approach more directly affects transmission-connected market participants who generally consider a retrospective reconciliation of deferral account balances to provide a more accurate allocation;
- most market participants, especially direct-connect market participants, consider retrospective allocation to be more accurate, more transparent, and more reflective of cost causation;
- an approach where prior period adjustments below a materiality threshold are allocated prospectively may offer some potential efficiency gains but also creates risk of additional complexity if a full retrospective re-reconciliation is later required; and
- the AESO’s existing retrospective reconciliation process is reasonably well-established and appears accepted and understood by market participants.

The AESO concludes there may be opportunity for changes which could modify the review and approval process while maintaining accurate and transparent reconciliation and allocation of deferral account balances. The AESO suggests that further discussion of potential process changes with stakeholders and the Commission might be worthwhile to ensure the objectives are understood and met.
6 Conclusion

52 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 2012 Deferral Account Reconciliation Application.

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

54 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 10-11, paragraph 42) of the Application should be granted in full.