



November 12, 2009

Posted on AESO website

Deferral Account Riders B and C Working Group Members
AESO Stakeholders

Dear Stakeholder:

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

As discussed earlier this year during stakeholder consultation on the AESO's 2008 deferral account reconciliation application and the AESO's 2010 tariff application, the AESO has investigated changes to simplify and improve the efficiency of the deferral account reconciliation process. The AESO is now seeking comments from stakeholders on specific proposals for changes to the reconciliation process. The AESO invites stakeholders to provide comments by **Friday, November 27, 2009**, using the accompanying form.

The proposals will also be presented at a stakeholder meeting scheduled as follows:

Date:	Thursday, November 19, 2009
Time:	1:30 – 4:30 PM
Place:	AESO Meeting Room 2539, 25th Floor 330 – 5th Avenue SW, Calgary, Alberta
Refreshments:	Coffee, juice, snacks
RSVP:	By Tuesday, November 17, 2009 to Ghaz Marinho, 403-539-2474 or ghaz.marinho@aeso.ca

The following discussion summarizes the proposals which will be included in either or both of the AESO's 2010 tariff application (to be filed later this year) or the AESO's 2009 deferral account reconciliation application (to be filed in March or April of 2010).

1 Proposed Changes to Riders B and C

As discussed with stakeholders on the Deferral Account Riders B and C Working Group in the AESO's 2010 tariff consultation, the AESO will propose the following changes to Riders B and C as part of its 2010 tariff application:

- Rider B: • Will be deleted from AESO tariff as it no longer serves a useful function
- Rider C: • Additional information will detail how quarterly values are determined
- Only current year transactions will be included in Rider C (although such transactions may relate to a prior year)
- Rider values will be released about a month before the start of a quarter

The AESO proposes to delete Rider B and file the attached draft of Rider C for approval as part of its 2010 tariff application. The AESO invites stakeholders to provide comments on the draft Rider C.

2 AUC Comments in 2008 Deferral Account Reconciliation Decision

In Decision 2009-191 on the AESO's 2008 deferral account reconciliation, the Alberta Utilities Commission (Commission) commented (paragraphs 56-57, pages 10-11):

It remains the view of the Commission that because deferral account processes and the riders such as AESO's current Rider B and Rider C have a bearing on the ultimate allocation of tariff costs to individual AESO customers, go forward changes in these processes should generally be addressed in the context of an AESO GTA.

Notwithstanding this finding, the Commission wishes to highlight its concern about the number of times that additional reconciliation is required in respect of deferral account years that have already been considered by the Commission in the context of prior deferral account reconciliation applications. The Commission urges AESO to be mindful of this concern as it considers its redesign of deferral account reconciliation processes and associated rate riders for its forthcoming GTA.

While the AESO does not object to addressing deferral account reconciliation process changes in its 2010 tariff application, the AESO notes that deferral account process changes have generally occurred in the context of deferral account reconciliation applications over the past several years. As well, changes proposed as part of the AESO's 2009 deferral account reconciliation application could be implemented earlier than changes addressed through the 2010 tariff application (which would likely be approved late in 2010 and would therefore apply to the AESO's 2010 deferral account reconciliation application).

The AESO proposes to include a general discussion of the deferral account reconciliation process described in this paper in its 2010 tariff application, and plans to use and request approval of the process in its 2009 deferral account reconciliation application. The AESO invites stakeholders to provide comments on this proposal, and specifically whether deferral account process changes can be more efficiently addressed in a tariff application or in a deferral account reconciliation application.

3 Termination of Full Reconciliations After Three Years

The AESO observes that its 2008 deferral account reconciliation application included full reconciliations for the six years from 2003 to 2008 plus reconciliations of adjustments for 2001 and 2002. The application contained over 1,600 pages of detail in multiple appendices. Yet the largest cost or revenue variance that occurred from 2001 to 2006 was \pm \$0.1 million, with only a \$0.5 million net surplus over all six years. (These amounts exclude the removal of the redistribution of interest originally proposed in the AESO's 2004-2007 deferral account reconciliation application.)

A similar scenario appears likely for the AESO's 2009 deferral account reconciliation application. As of September 30, 2009, the years 2004, 2005, and 2006 contain deferral account balances of \$0.3 million shortfall, \$0.3 million shortfall, and \$1.5 million surplus,

respectively, and total only \$0.9 million net surplus. As well, no transactions have been recorded since the 2008 deferral account reconciliation for production years prior to 2004.

Given the small value of transactions that appear to arise more than three years after the deferral account year, the AESO proposes to provide full reconciliations for only the most recent three years in future deferral account reconciliation applications. For the 2009 application, the AESO proposes to provide full reconciliations for 2007, 2008, and 2009 only.

For all earlier production years to which transactions apply, those transactions will be “rolled up” into the oldest year for which a full reconciliation is being completed. For the 2009 application, the years 2004, 2005, and 2006 will be “rolled up” into 2007 (with the exception of amounts attributable to STS customers, as discussed below).

As no transactions relate to 2003 or prior years, the 2009 application will not include any presentation of years prior to 2004.

If similar results occur for the AESO's 2010 and 2011 deferral account reconciliations, the treatment of transactions for each production year would be as show in Table 3-1.

Table 3-1 Treatment of Production Year Transactions With No Material Variances

Year	Deferral Account Reconciliation Year		
	2009	2010	2011
2011			Full reconciliation
2010		Full reconciliation	Full reconciliation
2009	Full reconciliation	Full reconciliation	Full reconciliation
2008	Full reconciliation	Full reconciliation	Roll up into 2009
2007	Full reconciliation	Roll up into 2008	
2006	Roll up into 2007		
2005			
2004			
2003			
2002			
2001			

In summary, the AESO proposes to provide full reconciliations for only the most recent three years in future deferral account reconciliation applications, and to roll up non-material transactions for prior years into the oldest year for which a full reconciliation is being completed.

The above discussion describes the roll-up approach for deferral account balances for rate components attributable to DTS customers. A similar approach would be used for deferral account balances for rate components attributable to STS customers, but only up to 2005 which was the last year in which STS charges were subject to retrospective deferral account reconciliation. Effective January 1, 2006, transmission system losses (the only cost which continues to be attributed to STS customers) are no longer subject to retrospective reconciliation, but are recovered through the use of Calibration Factor Rider E.

As discussed above, small transactions related to 2004 and 2005 production years have accrued since the AESO's 2008 deferral account reconciliation. However, as the AESO does not propose to complete a full reconciliation for any year prior to 2007, there would be no full reconciliation year into which these small balances could be rolled up.

As an alternative to continuing full reconciliations for 2005, the AESO proposes that non-material deferral account balances attributable to STS customers be carried forward and recovered or refunded through Calibration Factor Rider E. The AESO expects such amounts to be small compared to the cost of losses currently subject to Rider E.

To achieve the full efficiencies of a roll-up approach, the AESO proposes that detailed variance analysis not be provided for rolled-up years in its deferral account reconciliation applications. Only a deferral account summary table would be provided for rolled-up years, similar to those provided at the end of each production year section in the 2008 deferral account reconciliation application. An example table (for 2006, as filed in the AESO's 2008 application) is provided in Table 3-2.

Table 3-2 Example 2006 Deferral Account Summary (Excluding Losses), \$ 000 000

Line No.	Recorded	Recorded	Over	Prior Deferral Account		Over (Under)		
	Base Rate		(Under)	Collections	Refunds	Roll-Up to 2007		
	Revenue	Costs	Collection	Rider C	Prior DAR ¹	\$	%	
	(a)	(b)	(c)=(a)+(b)	(d)	(e)	(f)=Σ(c):(e)	(g)=- (f)÷(b)	
Demand Transmission Service								
1	Interconnection	\$467.0	(\$470.1)	(\$3.2)	\$14.5	(\$10.4)	\$0.9	0.2%
2	Operating Reserve	173.5	(185.3)	(11.9)	13.3	0.6	1.9	1.1%
3	Voltage Control	52.3	(39.3)	13.0	(12.4)	(0.5)	0.0	0.0%
4	Other System Support	7.9	(7.6)	0.4	(0.3)	(1.0)	(0.9)	(11.7%)
5	Total DTS	\$700.6	(\$702.3)	(\$1.7)	\$15.1	(\$11.3)	\$2.0	0.3%

Notes: Numbers may not add due to rounding.

¹ DAR means Deferral Account Reconciliation.

Although detailed variance explanations would generally not be required for production years in which no material variances occurred, the AESO would provide explanations for any large deferral account amounts which were rolled up into a later year.

The rolled-up amounts would also be listed, by year, in the deferral account tables in the year in which they were allocated.

In summary, the AESO proposes to provide in a deferral account reconciliation application only deferral account summary information for any year in which non-material amounts are rolled up into a later year.

4 Allocation of “Rolled-Up” Deferral Account Balances to the Same Production Month in Which They Originally Occurred

The AESO proposes that deferral account balances from a rolled-up year be allocated in the same production month in which they originally occurred, but in the year into which they are being rolled up. The AESO considers that roll-up by production month addresses potential concerns around seasonal revenue patterns of some customers that could affect allocation. Seasonal variability may be of greater importance than year-to-year variability for many DTS

customers, especially the distribution facility owners who are generally allocated the largest share of deferral account balances.

The AESO also notes that deferral account balances would be rolled up as separate cost and revenue amounts by rate component by month to determine the deferral account balances to be allocated to customers in the later full-reconciliation year. The rolled-up revenue amounts would not be included in the customer revenue amounts on which the deferral account balances are allocated, however, as doing so would impact the allocation of the larger amounts in the full-reconciliation year.

The AESO considers that the treatment of rolled-up STS deferral account balances through Rider E is essentially comparable to the allocation of rolled-up DTS amounts in the year into which they are rolled up.

In summary, the AESO proposes that deferral account balances from a rolled-up year be allocated in the same production month in which they originally occurred, but in the year into which they are being rolled up.

5 Full Re-Reconciliations of Terminated Year for Material Deferral Account Balance

The roll-up and allocation of deferral account balances for a production year would occur only when the balances for the year, both in total and by rate component, were not material. The AESO considers the materiality threshold discussed in 2005 during its deferral account reconciliation stakeholder consultation to remain reasonable, whereby balances would be considered material only if they exceeded — in total, by rate component, or by year — $\pm 1\%$ of the AESO's forecast annual revenue requirement subject to retrospective reconciliation. For 2008, the materiality threshold would be $\pm \$8.1$ million; for 2009, it would be $\pm \$8.7$ million.

In addition to this deferral account balance materiality threshold, the AESO acknowledges that a customer revenue adjustment below this threshold may result in material reallocation of deferral account balances to that customer. However, it is impossible to accurately predict the impact of deferral account reallocation on a customer without completing a full reconciliation for all customers. As an alternative, the AESO proposes to examine individual customer revenue adjustments that have occurred in each rolled-up production year and report the largest such adjustment (as a percentage of total revenue for the customer) as part of its application. The AESO will also assess whether a full reconciliation is needed to correctly address the impact of the revenue adjustment on deferral account allocation to the customer. For this assessment, the AESO considers the $\pm \$50,000$ impact discussed during its 2005 stakeholder consultation to remain reasonable.

If adjustment transactions result in a deferral account balance exceeding the materiality threshold for a terminated year, or if the AESO assesses the impact of an individual customer revenue adjustment to be excessive, all transactions for that production year would be subject to a full reconciliation. The deferral account reconciliation application would therefore include all transactions for the relevant production year that have occurred since the last full reconciliation, even if they had been rolled up in one or more previous applications.

For example, if a material transaction for production year 2006 occurred during 2011, the deferral account reconciliations illustrated in Table 3-1 would instead appear as in Table 4-1. The full reconciliation for 2006 included in the 2011 application would include transactions for 2006 which had been rolled up in the 2009 and 2010 application.

In summary, the AESO proposes to provide a full re-reconciliation for any previously-terminated production year in which:

- (a) deferral account balances — in total, by rate component, or by year — exceeds $\pm 1\%$ of the AESO's forecast annual revenue requirement subject to retrospective reconciliation for the production year, or
- (b) if, in the AESO's opinion, a full reconciliation is needed to correctly address the impact of a customer revenue adjustment on deferral account allocation to that customer.

Table 4-1 Treatment of Production Year Data With Material 2006 Balance in 2011

Year	Deferral Account Reconciliation Year		
	2009	2010	2011
2011			Full reconciliation
2010		Full reconciliation	Full reconciliation
2009	Full reconciliation	Full reconciliation	Full reconciliation
2008	Full reconciliation	Full reconciliation	Roll into 2009
2007	Full reconciliation	Roll into 2008	
2006	Roll into 2007		Full reconciliation
2005		Full reconciliation	
2004			
2003			
2002			
2001			

6 Consultation Process

The AESO plans to present information on these topics to facilitate discussion at the November 19, 2009, stakeholder meeting, and invites stakeholder feedback by November 27 using the provided comment form.

This letter and all other printed information related to the Deferral Account Riders B and C Working Group and the 2010 tariff consultation is available on the AESO's website at www.aeso.ca by following the path Tariff ► Current Consultations ► 2010 Tariff. The AESO appreciates stakeholders' participation in this consultation.

If you have any comments or questions on this consultation process or the AESO's tariff application, please contact me at 403-539-2465 or john.martin@aesoc.ca.

Sincerely,

[original signed by]

John Martin
Director, Tariff Applications

attachment

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

**RIDER C
DEFERRAL ACCOUNT ADJUSTMENT RIDER**

Applicability

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

Rider

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

Terms

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



Revision History

2009-11-12 Revised to reflect proposals in 2010 tariff application.
Working draft, not released.