

2015 Deferral Account Reconciliation Application Consultation Meeting

LaRhonda Papworth, Regulatory May 3, 2016 - Calgary



Agenda



- Objectives and scope (slides 3-4)
- Deferral account reconciliation application history and methodology (slides 5-9)
- Summary of application and deferral accounts (slides 10-14)
- Variances summary (slides 15-19)
- Allocation to market participants (slides 20-25)
- 2015 DAR application enhancements (slides 26-27)
- Interim settlement (slides 28)
- Next steps (slides 29-30)
- Discussion and questions (slides 31)

Meeting Objectives



- Inform on proposed 2015 deferral account reconciliation application submission and settlement of deferral account balances
 - Assess support for approval for immediate interim settlement of deferral account balances
- Inform on current balances of deferral accounts
- Inform on material prior year adjustments and variance explanations to be included in 2015 deferral account reconciliation
- Inform on allocation of 2015 deferral account reconciliation amounts to market participants

Scope of Presentation



- Presentation is based on preliminary deferral account balances
- 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

History



Application	2015	2013-2014	2012	2010-2011
Reconciliation Years	2010-2015	2007-2014	2005-2012	2004-2011
Filed	Est. May 2016	Sep 2015	Aug 2013	May 2012
Interim Settlement	Est. Jul 2016	None due to stakeholder objections	Nov 2013	None due to rate freeze
Final Decision	Est. late 2016	Jan 2016	Feb 2014	Feb 2013

Deferral Account Reconciliation (DAR) 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
- Deferral account balances allocated to market participants before Rider C and prior reconciliation amounts
 - Effectively "unwinds" prior cash flows to determine new balances by rate and rate category for each market participant

DAR Methodology Determination of Recorded Wires Costs



- For wires, recorded costs reflect those costs paid for a year in which the Commission has approved final costs
- If final costs have not yet been approved, recorded wires costs reflect:
 - Refiled costs, as applied for in a TFO compliance filing in response to an initial decision, or
 - Applied-for costs, based on the most recently-approved costs plus 72% of any applied-for increase or decrease, or
 - Most recently-approved final or interim costs, if an application for the year has not yet been filed by the TFO

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 prudency

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

2015 Deferral Account Reconciliation Application



- AESO plans to file deferral account reconciliation application for 2015 in May 2016, including:
 - first reconciliation for 2015
 - second reconciliations for 2014 and 2013
 - third reconciliation for 2012
 - fourth reconciliations for 2011 and 2010
- No new transactions related to years prior to 2010
- AESO intends to request interim approval for immediate settlement of deferral account amounts with market participants in July 2016

Data Included in Application



- Data cut-off date of December 31, 2015
 - Preparation of the application began in February
- 2015 year end balances are included and settled through the 2015 deferral account reconciliation
 - 2015 year end balances were not included in 2016 Rider C
- Minor adjustments related to 2015 and prior years have occurred since December 31
 - Adjustments net to \$1.1 million shortfall (net increase to costs)
 - Includes \$0.9 million of unforeseeable TMR costs in Q1 2016;
 preliminary estimate of an additional \$7.2 million yet to be settled
 - associated with outages related to new facility construction and physical damage to existing transmission structure

2015 DAR Preliminary Balances



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

Year	Connection	Operating Reserve	Trans Constraint Rebalancing	Voltage Control	OSS Services	Total
2015	(18.5)	(0.0)	-	1.1	0.1	(17.2)
	Ad	djustments	Since 2013-201	I4 Reconci	liation	
2014	11.2	(0.1)		(0.2)	(0.0)	10.8
2013	12.3	(0.0)		(0.1)	(0.0)	12.2
2012	4.7	-		(0.2)	-	4.5
2011	(4.7)	-		-	-	(4.7)
2010	1.0	-		-	-	1.0
Total	6.1	(0.1)	-	0.6	0.1	6.7

Numbers may not add due to rounding

Summary of Deferral Account Balances, \$ 000 000



	2015	2014	2013	2012	2011	2010
Connection	1,403.5	(0.2)	(0.1)	-	-	-
Operating Reserve	144.1	(0.1)	(0.0)	-	-	-
Transmission Constraint Rebalancing	-	-	-	-	-	-
Voltage Control	0.9	(0.0)	(0.0)	-	-	-
Other System Support	2.9	(0.0)	(0.0)	-	-	-
Total Revenue	1,551.4	(0.3)	(0.1)	0.0	-	-
Wires	(1,527.4)	11.4	12.4	4.7	(4.7)	1.0
Ancillary Services	(162.9)	(0.2)	(0.1)	(0.2)	-	-
Other Industry	(14.8)	-	-	-	-	-
General & Admin	(83.7)	(0.0)	-	-	-	-
Total Costs	(1,788.8)	11.2	12.3	4.5	(4.7)	1.0
Surplus (Shortfall)	(237.4)	10.8	12.2	4.5	(4.7)	1.0
Rider C Collection	220.2	-	-	-	-	-
Net Surplus (Shortfall)	(17.2)	10.8	12.2	4.5	(4.7)	1.0

Summary of Revenues and Costs, \$ 000 000



	2015	2014	2013	2012	2011	2010
Total Revenue	1,551.4	1,476.1	1,391.8	1,243.3	1,069.3	772.1
Total Costs Paid	(1,788.8)	(1,691.0)	(1,609.5)	(1,391.2)	(1,235.7)	(880.2)
Surplus (Shortfall)	(237.4)	(214.9)	(217.7)	(147.9)	(166.5)	(108.1)
Rider C Collection	220.2	185.5	247.9	158.5	185.8	104.6
Prior Reconciliation Collection (Refund)	-	40.2	(18.0)	(6.1)	(24.0)	4.5
Net Surplus (Shortfall)	(17.2)	10.8	12.2	4.5	(4.7)	1.0

Numbers may not add due to rounding

Thresholds for Variance Explanations



P	roduction Year	Variance Explanation Threshold			
2015	First Reconciliation	±\$8.0 million variance, or at least ±\$0.8 million and at least ±10% of forecast			
2014 2013	Second Reconciliation (half of first)	±\$4 million variance, or at least ±\$0.4 million and at least ±5% of first reconciliation recorded costs			
2012	Third Reconciliation (one-third of first)	±\$2.6 million variance, or at least ±\$0.26 million and at least ±3% of first reconciliation recorded costs			
2011 2010	Fourth Reconciliation (one-fourth of first)	±\$1.7 million variance, or at least ±\$0.17 million and at least ±2% of first reconciliation recorded costs			

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 Summary of Significant Variances: 2015



Year	Component	Variance Description
2015	Wires	 ATCO Electric: \$15.3 million (2%) more than forecast due to Commission Decision on ATCO Electric Ltd.'s 2015 Updated Interim Transmission Facility Owner Tariff (20338-D01- 2015)
2015	Ancillary Services	 Active Operating Reserves: \$16.3 (18%) more than forecast due to pool price volatility and higher premiums
		 Standby Operating Reserves: \$8.5 million (20%) less than forecast due to the net impact of lower standby premiums offset by higher activation costs
		Black Start: \$2.9 million (58%) less than forecast due to additional services provided as part of the Reliability Services

Preliminary Summary of Significant Variances: 2015 (continued)



Year	Component	Variance Description
2015	Ancillary Services	Transmission Must-Run: \$1.7 million (56%) less than forecast due to timing differences for settlement of 2015 conscripted TMR services
		 Load Shed Services for Imports: \$7.6 million (30%) less than forecast due to fewer arming and tripping events

Preliminary Summary of Significant Variances: 2015 (continued)



Year	Component	Variance Description
2015	Other Industry	Regulatory Process Costs: \$1.1 (70%) less than forecast due to forecast uncertainty
		Share of Commission Costs: \$1.5 (11%) less than forecast due to forecast uncertainty
2015	General and Administrative	Contract Services and Consultants: \$2.6 million (35%) less than forecast due to postponement or cancellation of projects

Preliminary Summary of Significant Variances: 2011-2014



Year	Component	Variance Description
2014	Wires	ATCO Electric: \$10.6 million (2%) less than forecast due to 2013-2014 Transmission Deferral Account
2013	Wires	ATCO Electric: \$10.6 million (2%) less than forecast due to 2013-2014 Transmission Deferral Account
2012	Wires	ATCO Electric: \$4.9 million (1%) less than forecast due to:
		2013-2014 Transmission Deferral Account
		2012 Transmission Deferral Refund; Decision 20580-D01-2015
2011	Wires	ATCO Electric: \$4.7 million (2%) more than forecast due to:
		2013-2014 Transmission Deferral Account
		2012 Transmission Deferral Refund; Decision 20580-D01-2015

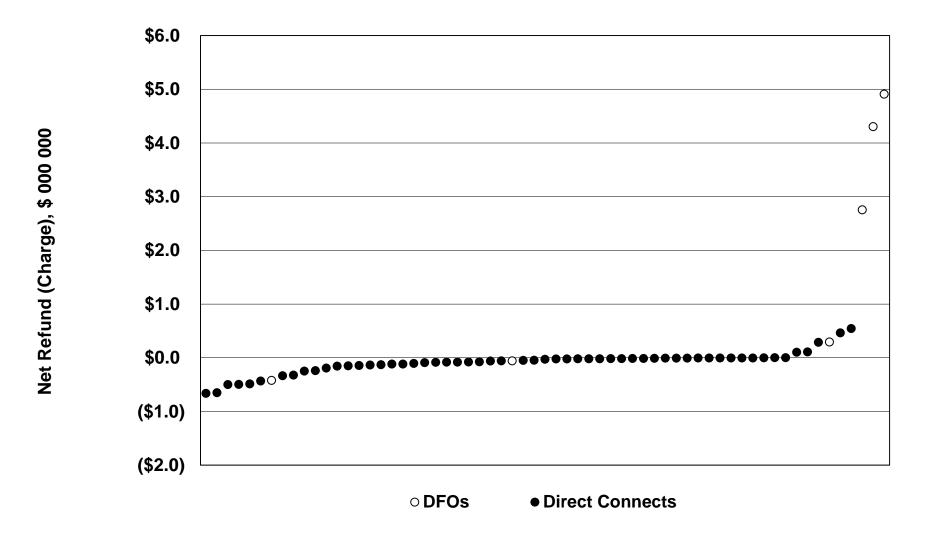
Allocation to Market Participants



- Deferral account balances allocated to market participants by rate and rate component in accordance with the ISO tariff
- For wires, ancillary services, other industry, and general and administration costs, allocation based on Rate DTS revenue
- Rider C amounts charged or refunded to market participants over the period are applied on an individual market participant basis to determine the net amount to be refunded to or collected from the market participant
- Where a System Access Service Agreement is assigned (through Assignment and Novation), the deferral account allocation is to the account of the assignee
 - Assignees have been determined as of February 29, 2016

Preliminary DTS Market Participants Results





Preliminary DTS Market Participant Results (continued)



	Number of DTS	% of Total DTS
	Market Participants	Market Participants
Charges of \$0.1 to \$1.0 million	20	32%
Charges of \$0.01 to \$0.1 million	22	35%
Charges of \$0.0 to \$0.01 million	12	19%
Refunds of \$0.0 to \$0.1 million	-	-
Refunds of \$0.1 to \$1.0 million	6	9%
Refunds of \$1.0 to \$5.0 million	3	5%
Total	63	100%

Individual Market Participant Amounts



- Market participants will be assigned random numbers in each year to protect confidentiality
 - Number codes will be provided to each market participant
- Similar information will be available on request in Excel format at settlement point level, for market participants with <u>multiple</u> settlement points
 - Market participants with only a single settlement point will not require the Excel format
- Follow-up questions regarding market participants' reports can be directed to AESO firstcall at 1-888-588-2376

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 market participants
 - Settlement in July if approval received by end of June
 - Subject to adjustment in final decision on deferral account reconciliation application, expected in late 2016

Amounts Allocated to "Discontinued" Market **Participants**



- Some market participants have:
 - Terminated service from the AESO,
 - Not assigned their contracts to other parties, and
 - Discontinued operations (through bankruptcy proceeding or otherwise)
- Facilities continue in service to other parties under new contracts
- Amounts allocated to services of such "discontinued" market participants with respect to prior production periods are treated as "uncollectible"
 - Collected from or refunded to other market participants in the next year's deferral account reconciliation application; net uncollectible amount in 2015 DAR application is \$46 from 2013-2014 DAR is \$46
 - Cumulative net uncollectible amount since 2009 DAR is \$155 refund 25

Deferral Account Reconciliation Application



- Application enhanced to reduce repetition and reduce the size of the application without losing clarity
 - Years beyond the second reconciliation are condensed into one section
- Appendices will include extensive reports showing allocation of deferral account balances to market participants
 - Allocation to market participants detailed in over 900 pages of appendices
 - No changes to report layouts from those in 2013-2014 application, other than adding 2015 year
 - Detail for all years (including years condensed in application body) are retained in appendices

Deferral Account Reconciliation Application (continued)



Example of condensed 2010-2012 section of application:

Table 6-1 2010-2012 Reconciliation Adjustments, \$ 000 000

Line		Production Year				
No.		2012	2011	2010		
	RECORDED COSTS					
	Total Wires Costs					
1	2013-2014 DAR1 Costs	920.8	771.3	631.2		
2	ATCO Electric's 2013-2014 DA Application	(4.9)	4.7			
3	Other Adjustments Increase/(Decrease)	-	-	(1.0)		
4	2015 DAR Costs	916.0	776.0	630.2		
	Total Ancillary Services					
5	2013-2014 DAR Costs	374.9	367.4	174.2		
6	Adjustments Increase/(Decrease)	0.2	-			
7	2015 DAR Costs	375.1	367.4	174.2		
	Total Other Industry Costs					
8	2013-2014 DAR Costs	18.6	15.5	15.1		
9	Adjustments Increase/(Decrease)	-	-			
10	2015 DAR Costs	18.6	15.5	15.1		
	Total General and Administrative Costs					
11	2013-2014 DAR Costs	81.5	76.8	60.7		
12	Adjustments Increase/(Decrease)	-	-			
13	2015 DAR Costs	81.5	76.8	60.7		
	TOTAL REVENUE REQUIREMENT					
14	2013-2014 DAR Costs	1,395.7	1,231.1	881.2		
15	Adjustments Increase/(Decrease)	(4.5)	4.7	(1.0)		
16	2015 DAR Costs	1,391.2	1,235.7	880.2		

Immediate Interim Settlement



- Net total 2010-2015 deferral account balances of \$6.7 million surplus based on transactions to December 31, 2015
 - \$220.2 million of 2015 Rider C collections "unwound" and reallocated
- Full regulatory review process would likely conclude in late 2016
- Interim refundable settlement would provide prompt and accurate collection of outstanding balances to market participants
- Interim approval by end of June would allow settlement on invoices issued in July

Next Steps



- Filing of 2015 deferral account reconciliation application in May 2016
 - AESO will recommend written proceeding
 - Request for immediate interim settlement will be filed with application
 - Commission will establish schedule, expected to include information request process
- Distribution of market participant number codes
 - Distribution of market participant-specific settlement point reports on request
- Further investigation of Rider C and DAR processes in 2017
 ISO tariff application to be filed later this year

For More Information



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- For report questions after distribution:
 AESO firstcall 1-888-588-2376
- Consultation materials on AESO web site at www.aeso.ca
 Tariff ➤ Current Consultations ➤ 2015 Deferral Account
 Reconciliation
- Application on AESO web site at www.aeso.ca
 Tariff ➤ Current Applications ➤ 2015 Deferral Account Reconciliation



Questions? Discussion



Thank you

