Alberta Electric System Operator 2015 Deferral Account Reconciliation Application

Date: June 17, 2016
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Confidentiality: Public

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1 Introduction

1 Pursuant to sections 30 and 119 of the *Electric Utilities Act*, S.A. 2003, c. E-5.1 ("Act"), the Alberta Electric System Operator ("AESO") applies to the Alberta Utilities Commission ("Commission") for approval of its determination of deferral account balances for 2015 and of changes to deferral account balances for 2014, 2013, 2012, 2011 and 2010.

2 This application seeks approval of the reconciled variances arising between the actual costs the AESO has incurred in providing system access service and the actual revenue recovered through base Rate DTS ("base rate") revenue, tariff revenue offsets[1] and revenue recovered through prior deferral account reconciliations. The application also seeks approval of the allocation, collection, and refund of deferral account balances to market participants who received system access service under Rate DTS, *Demand Transmission Service*, or Rate FTS, *Fort Nelson Demand Transmission Service*, of the Independent System Operator ("ISO") tariff during 2015, 2014, 2013, 2012, 2011 and 2010.

3 The balances included in this application result in a $6.7 million net deferral account surplus after applying charges and refunds resulting from Rider C, *Deferral Account Adjustment Rider*, as well as any prior deferral account reconciliation settlements. The $6.7 million net surplus comprises:

- a shortfall of $17.2 million from a first reconciliation of the deferral accounts for 2015;
- a surplus of $10.8 million from a second reconciliation of the deferral accounts for 2014;
- a surplus of $12.2 million from a second reconciliation of the deferral accounts for 2013;
- a surplus of $4.5 million from a third reconciliation of the deferral accounts for 2012;
- a shortfall of $4.7 million from a fourth reconciliation of the deferral accounts for 2011; and
- a surplus of $1.0 million from a fourth reconciliation of the deferral accounts for 2010.

4 This application also seeks approval to collect and refund the market participant amounts included in this application through one-time charges or payments to market participants, as soon as practical on an interim refundable basis. Amounts collected or refunded to market participants on an interim refundable basis will be adjusted, if necessary, in accordance with the Commission's final approval.

1.1 Background

5 In accordance with the Act, the AESO provides system access service to market participants, including access to exchange electric energy and ancillary services. Rates charged for system access service provided by the AESO are specified in the ISO tariff approved by the Commission.

6 The ISO tariffs in place for 2015, 2014, 2013, 2012, 2011 and 2010 were approved in various decisions and orders of the Commission as follows:

- Decision 3473-D01-2015 issued June 17, 2015 (ISO tariff effective July 1, 2015);
- Decision 2013-325 issued August 28, 2013 and Decision 2014-242 issued August 21, 2014 (ISO tariff effective October 1, 2013);
- Decision 2011-275 issued June 24, 2011 (ISO tariff effective July 1, 2011); and
- Decision 2009-141 issued September 18, 2009 (ISO tariff effective October 1, 2009).

[1] "Tariff revenue offsets" comprise revenue collected or refunded other than through base Rate DTS, where such revenue relates to system access services provided under the ISO tariff. Additional detail is provided in Appendix D-4.

7 Deferral accounts are necessary to ensure that, in accordance with section 14 of the Act, the AESO is managed so that, on an annual basis, no profit or loss results from the AESO's operation. Deferral accounts allow the AESO to address differences between actual costs and revenue incurred in providing system access service to market participants, and are specifically provided for in subsections 122(2) and 122(3) of the Act.

8 Each of the ISO tariffs in effect during the years addressed in this application included either or both of:

- Rider B, *Working Capital Deficiency/Surplus Rider*, "to recover unexpected increases in the AESO's working capital deficiency or to refund unexpected surpluses of working capital" and "restore the AESO's working capital deficiency to the AESO's annual average forecast" (which was removed from the ISO tariff effective July 1, 2011); and/or
- Rider C, to "recover or refund … accumulated deferral account balances" and "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."

9 These riders allow the AESO to manage its deferral account balances throughout the year. However, the AESO's deferral accounts are also subject to later reconciliation, including approval of such reconciliation by the Commission. Under the deferral account methodology most recently approved by the Commission,[2] the AESO reconciles, on a retrospective basis, the actual costs it has incurred in providing system access service to the revenues recovered relating to provision of that service. For each reconciliation, costs and revenues are attributed to the time period during which system access service was provided, which is referred to as reconciliation on a "production month" basis.

10 The reconciliation of deferral account balances and the associated allocation of those balances to market participants for certain years included in this application have previously been addressed by the Commission in:

- Decision 20866-D01-2016 issued January 14, 2016 for the AESO's 2013-2014 deferral account reconciliation application;
- Decision 2014-034 issued February 13, 2014 for the AESO's 2012 deferral account reconciliation application; and
- Decision 2013-034 issued February 7, 2013 for the AESO's 2010-2011 deferral account reconciliation application.

11 This application provides a first reconciliation of 2015 deferral account balances; second reconciliations of 2014 and 2013 deferral account balances; a third reconciliation of 2012 deferral account balances; and fourth reconciliations of 2011 and 2010 deferral account balances. The deferral account reconciliations have been prepared on a retrospective, monthly, and production month basis, consistent with the method used in all previous reconciliations starting in 2004 as reviewed and approved by the Commission. More detailed discussion of the deferral account balances is provided in Sections 3 (for 2015), 4 (for 2014), 5 (for 2013), and 6 (for 2012, 2011 and 2010) of this application.

12 No transactions occurred in 2015 that related, either in whole or in part, to any year prior to 2010. Accordingly, no deferral account reconciliations or adjustments are included in this application for years prior to 2010.

[2] Commission Decision 20866-D01-2016 issued January 14, 2016

13 The AESO is not proposing any changes to deferral account reconciliation methodology or Rider C in this application. The AESO notes that in Decision 2014-242 the Commission directed the AESO to discuss and report on matters of annual tariff updates, deferral account reconciliation processes, and Rider C design in its next comprehensive tariff application, which the AESO currently plans to file in early 2017.

1.2 Interim Settlement with Market Participants

14 The AESO is requesting that the Commission approve this application on both a final and interim refundable basis. Interim approval is being requested to immediately settle deferral account amounts with market participants. Immediate settlement will allow the AESO to collect from market participants an outstanding deferral account shortfall, or to refund to market participants an outstanding deferral account surplus, to the greatest extent possible without further delay. The Commission has approved[3] the interim settlement of all previously applied-for deferral account balances, with the exception of the 2013-2014 and the 2010-2011 applications.

15 The AESO requested interim approval to settle the deferral account amounts in its 2013-2014 deferral account reconciliation application. However the Commission issued a letter[4] regarding interim settlement on December 2, 2015, advising stakeholders that the Commission would not approve the application on an interim and refundable basis given the close timing to year-end financial reporting and that the Commission would issue its final determination in due course. The 2013-2014 deferral account reconciliation was approved on a final basis in Decision 20866-D01-2016 issued on January 14, 2016.

16 Although the AESO requested interim approval to settle the deferral account amounts in its 2010-2011 deferral account reconciliation application, Commission Bulletin 2012-03, issued March 13, 2012, had set out the Commission's approach to the Alberta Minister of Energy's request to maintain electricity rates at that time. In Bulletin 2012-03, the Commission explained that it would process and complete the record for currently pending and new applications but would not issue decisions that result in rate increases. The Commission further explained that its approach would remain in effect until the Government of Alberta responded to the Retail Market Review Committee's recommendations, which occurred on January 29, 2013. By then the Commission had completed the record for the 2010-2011 deferral account reconciliation and proceeded to issue Decision 2013-034 on February 7, 2013, which provided final approval to settle the deferral account amounts.

17 The deferral account balances in this application have been determined based on recorded costs paid and recorded "total revenues" (which comprise base rate revenue and tariff revenue offsets) received by the AESO, and have been reconciled to the AESO's financial statements in the appendices. The AESO considers that the $6.7 million net surplus balance reconciled in this application represents probable and material amounts for a number of market participants, and this is one reason it is appropriate to request interim approval.

18 The allocation of deferral account balances to market participants has been prepared in this application using the same methodology, and the same software program updated annually, as in previous deferral account reconciliation applications. The allocations in those applications were approved as filed, and the AESO expects that the allocation in this 2015 application will also be found to be reasonable. Settlement with market participants through interim collection of the deferral account balances should therefore result in rate stability and intergenerational equity, and this is another reason interim approval is appropriate.

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[3] For 2012 in Decision 2013-370, issued October 4, 2013, for 2009 in Decision 2010-209, issued May 13, 2010, for 2008 in Decision 2009-074, issued June 3, 2009 and for 2004-2007 in Decision 2009-010, issued January 27, 2009.
[4] Proceeding 20866, Exhibit X0074, Paragraph 8

19 The AESO understands from prior deferral account reconciliation proceedings that it is customary to seek the views of stakeholders on a request for interim approval. If no party opposes interim settlement, the AESO further understands that settlement of the deferral account balances could potentially be approved on an interim, refundable basis without further process. Interim approval is discussed further in Section 8.1 of this application.

1.3 Organization of this Application

20 This application is organized into the following sections.

1 Introduction — Provides background on the application and specifies the relief requested.

2 Summary of Deferral Account Reconciliation Process — Summarizes the process used to determine deferral account amounts and other considerations affecting the deferral account reconciliation process.

3 2015 Financial Results and Deferral Account Balance — Discusses cost and revenue variances for 2015 and provides the deferral account balances for 2015.

4 2014 Financial Results and Deferral Account Balance — Discusses adjustments to cost and revenue that occurred after the first 2014 deferral account reconciliation and provides the outstanding deferral account balances for 2014.

5 2013 Financial Results and Deferral Account Balance — Discusses adjustments to cost and revenue that occurred after the first 2013 deferral account reconciliation and provides the outstanding deferral account balances for 2013.

6 2012, 2011 and 2010 Financial Results and Deferral Account Balances — Discusses adjustments to cost and revenue that occurred after the second 2012 deferral account reconciliation and the third 2011 and 2010 deferral account reconciliations and provides the outstanding deferral account balances for 2012, 2011 and 2010.

7 Allocation to Market Participants — Discusses the process by which deferral account balances are allocated to market participants.

8 Proposed Method of Refunding and Collecting — Discusses the proposed method of refunding and collecting deferral account amounts.

9 Conclusion — Reiterates the relief requested.

Appendices A through H of this application provide additional detail in support of the application, including market participant-level allocation of deferral account balances.

1.4 Relief Requested

21 The AESO respectfully requests that the Commission approve this application as applied for, including:

(a) the deferral account balance reconciliations for the calendar years 2015, 2014, 2013, 2012, 2011 and 2010 as presented in Sections 3 to 6 of this application;

(b) the methodology of allocating deferral account balances to market participants as presented in Section 7 and Appendices E through H of this application, for purposes of recovering and refunding outstanding variance amounts from and to market participants receiving system access service under Rate DTS or Rate FTS of the ISO tariff;

(c) the collection and refund by the AESO of amounts through the use of a one-time collection and refund option similar to that used for previous years' deferral account balances, as more particularly described in Section 8 of this application;

(d) the collection and refund by the AESO of the market participant amounts included in this application as soon as practical on an interim refundable basis, and with such amounts subject to adjustment in final approvals following a full regulatory review, as described in Section 8 of this application; and

(e) such further and other relief as the Commission may prescribe.

2 Summary of Deferral Account Reconciliation Process

2.1 Data Included in this Application

22 In addition to amounts settled in prior deferral account reconciliations for 2014, 2013, 2012, 2011 and 2010, this application incorporates all costs paid and revenue collected by the AESO that:

- have not been settled in prior deferral account reconciliation filings;
- relate to 2015 or prior years for all costs except those related to losses and to provision of a wind forecasting service; and
- were accounted for up to December 31, 2015.

23 This application includes wires costs based on:

- the AESO-forecasted or actual transmission facility owner ("TFO") wires costs according to the method described in the AESO's 2010 ISO tariff application and approved in Commission Decision 2011-275 regarding the AESO 2010 ISO tariff compliance filing (which method is further described in Section 3.1.1 of this application); and
- TFO deferral account reconciliation amounts or other adjustments approved by the Commission.

24 This application includes revenue based on Rate DTS and Rate FTS as applied to system access service provided under the ISO tariff and approved in various decisions and orders of the Commission listed in Section 1.1 of this application. As noted in the ISO tariff, Rider C applies only to Rate DTS and Rate FTS, and accordingly only revenue under those rates is included in a deferral account reconciliation. In addition, certain revenue related to other rates of the ISO tariff are included as tariff revenue offsets in the determination of total recorded revenue. Those tariff revenue offsets are provided in this application as they affect the deferral account balances attributable to Rate DTS and Rate FTS. Tariff revenue offsets are presented as separate amounts for the first time in tables in the body of this application. In previous deferral account reconciliations, tariff revenue offsets were included with base rate revenue in tables in the body of the applications. Tariff revenue offsets have always been identified as separate amounts in the detailed appendices included with deferral account reconciliation applications. The AESO notes that provision of additional clarity with respect to the treatment of revenue offsets resulted from discussions during stakeholder consultation preceding finalization of the 2015 deferral account reconciliation application.

25 As discussed in Section 2.1.3 below, 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. Similarly, and as also discussed in Section 2.1.3 below, costs paid by the AESO for provision of a wind forecasting service for wind-powered generating units are not subject to retrospective deferral account reconciliation. Those costs are therefore excluded from deferral account balances settled in this application.

26 The ancillary services and the AESO's own administrative costs[5] included in the AESO's revenue requirement are those approved by the AESO Board (consisting of the "ISO members" appointed under section 8 of the Act) in accordance with the *Transmission Regulation*. The practice established by the AESO to carry out consultation on ancillary services, losses, and the AESO's own administrative costs is the Budget Review Process. The Budget Review Process is a transparent stakeholder process that provides a prudence review with input from stakeholders. At the conclusion of the Budget Review

[5] See Section 1(1)(g) of the *Transmission Regulation*.

Process, AESO management proposes a business plan and budget to the AESO Board, including a request for approval of ancillary services costs, losses costs, and own administrative costs.

27 As part of the annual AESO Budget Review Process, AESO management consults with stakeholders in a planning process. In the third quarter of each year, the AESO accordingly reviews the business initiatives that had been advanced during the year and that would form the basis on which the AESO would operate and advance its strategic plan during the following year. After establishing the business initiatives, the AESO assesses the financial resources required to successfully deliver those initiatives.

28 Specifically, the following data is included for the different components of this application.

(a) **2015 First Reconciliation** — This application reconciles all costs paid[6] and revenue collected by the AESO with respect to 2015, from January 1 to December 31, 2015. The reconciliation therefore includes all 2015-related costs and revenue settled during calendar year 2015, which result in a 2015 deferral account balance shortfall of $17.2 million.

(b) **2014 Second Reconciliation** — This application reconciles all costs paid[6] and revenue collected by the AESO with respect to 2014, from January 1, 2014 to December 31, 2015. The AESO notes that its previous 2013-2014 deferral account reconciliation application included all 2014-related costs and revenue settled from January 1, 2014 to December 31, 2014. This current application incorporates all later adjustments for 2014 which occurred on or after January 1, 2015 and up to December 31, 2015, which result in a 2014 deferral account balance surplus of $10.8 million.

(c) **2013 Second Reconciliation** — This application reconciles all costs paid[6] and revenue collected by the AESO with respect to 2013, from January 1, 2013 to December 31, 2015. The AESO notes that its previous 2013-2014 deferral account reconciliation application included all 2013-related costs and revenue settled from January 1, 2013 to December 31, 2014. This current application incorporates all later adjustments for 2013 which occurred on or after January 1, 2015 and up to December 31, 2015, which result in a 2013 deferral account balance surplus of $12.2 million.

(d) **2012 Third Reconciliation** — This application reconciles all costs paid[6] and revenue collected by the AESO with respect to 2012, from January 1, 2012 to December 31, 2015. The AESO notes that its previous 2013-2014 deferral account reconciliation application included all 2012-related costs and revenue settled from January 1, 2012 to December 31, 2014. This current application incorporates all later adjustments for 2012 which occurred on or after January 1, 2015 and up to December 31, 2015, which result in a 2012 deferral account balance surplus of $4.5 million.

(e) **2011 Fourth Reconciliation** — This application reconciles all costs paid[6] and revenue collected by the AESO with respect to 2011, from January 1, 2011 to December 31, 2015. The AESO notes that its previous 2013-2014 deferral account reconciliation application included all 2011-related costs and revenue settled from January 1, 2011 to December 31, 2014. This current application incorporates all later adjustments for 2011 which occurred on or after January 1, 2015 and up to December 31, 2015, which result in a 2011 deferral account balance shortfall of $4.7 million.

(f) **2010 Fourth Reconciliation** — This application reconciles all costs paid[6] and revenue collected by the AESO with respect to 2010, from January 1, 2010 to December 31, 2015. The AESO

[6] Includes the AESO-forecasted TFO wires related costs (see section 3.1.1 of this application) not yet paid

notes that its previous 2013-2014 deferral account reconciliation application included all 2010-related costs and revenue settled from January 1, 2010 to December 31, 2014. This current application incorporates all later adjustments for 2010 which occurred on or after January 1, 2015 and up to December 31, 2015, which result in a 2010 deferral account balance surplus of $1.0 million.

29 This application does not reconcile any amounts with respect to 2009 or any prior year, as there were no costs paid or revenue collected by the AESO with respect to 2009 and prior years from January 1, 2015 to December 31, 2015.

2.1.1 Significant Prior-Period Adjustments

30 This application includes certain significant amounts that were accounted for in 2015 and attributed to periods prior to 2015 under the production month presentation used in this application. These significant prior-period adjustments include (but are not limited to) the following:

(a) $23.0 million decrease attributed to wires costs for years 2014, 2013, 2012 and 2011 resulting from ATCO Electric Ltd.'s ("ATCO Electric's") 2013-2014 transmission deferral account and annual filing application on January 8, 2016; and

(b) $2.3 million decrease attributed to wires costs for 2012, $3.9 million increase attributed to wires costs for 2011 and $1.0 million decrease attributed to wires costs for 2010 resulting from final approval of ATCO Electric's 2012 transmission deferral refund in Commission Decision 20580-D01-2015, issued on August 14, 2015.

2.1.2 Forfeited Refunds of Generating Unit Owner's Contributions

31 In accordance with section 29 of the *Transmission Regulation*, owners of generating units subject to Rate STS, *Supply Transmission Service*, are required to pay a generating unit owner's contribution in accordance with the ISO tariff. Such a contribution is refundable under section 10 of the ISO tariff, *Generating Unit Owner's Contribution*, over a period of not more than 10 years, subject to satisfactory operation of the generating unit determined in accordance with section 505.2 of the ISO rules, *Performance Criteria for Refund of Generating Unit Owner's Contribution*.

32 Generating unit owner's contributions are held and administered by the AESO, reducing the working capital that the AESO would otherwise require and accordingly reducing the interest expense included in the revenue requirement recovered through Rate DTS and Rate FTS. In addition, any generating unit owner's contribution refunds that are forfeited (due to unsatisfactory operation of a generating unit during a year) are recognized as a recorded offset attributable to the connection charge component of Rate DTS and Rate FTS, and reduce the amounts that would otherwise be collected from market participants who receive system access service under those rates.

33 Table 2-1 summarizes the generating unit owner's contributions collected, refunded, and forfeited from 2015 to 2006 inclusive. Refunds of generating unit owner's contributions were first issued by the AESO in 2009, with amounts refunded and forfeited annually since then as provided in Table 2-1. In 2015, $4.3 million of generating unit owner's contributions were refunded with $0.1 million forfeited. Since 2009, about 3% of the refunds that would otherwise have occurred during a year have been forfeited due to unsatisfactory operation of a generating unit.

Table 2-1 Continuity of Generating Unit Owner's Contributions, $ 000 000

Line No.	Description	Year(s) 2015	2014	2013	2012	2011	2010	2009 to 2006	Totals 2015 to 2006
1	Contributions, Opening Balance	$70.8	$62.7	$42.5	$31.0	$26.4	$25.1	-	-
2	Additional Contributions During Year	0.4	11.5	22.8	13.2	5.3	1.7	25.2	80.1
3	Contribution Refunds During Year								
4	Refunds to Generating Unit Owners	(4.3)	(3.2)	(2.6)	(1.6)	(0.7)	(0.4)	(0.1)	(12.9)
5	Forfeited Refunds	(0.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.1)	-	(0.4)
6	Total Contribution Refunds During Year	(4.4)	(3.4)	(2.7)	(1.6)	(0.7)	(0.4)	(0.1)	(13.3)
7	**Contributions, Closing Balance**	**$66.8**	**$70.8**	**$62.7**	**$42.5**	**$31.0**	**$26.4**	**$25.1**	**$66.8**

Note: Numbers may not add due to rounding.

2.1.3 Adjustments Not Included

34 Effective January 1, 2006, transmission system losses are no longer subject to retrospective deferral account reconciliation. The AESO has therefore not included reconciliation of losses amounts for the deferral account years in this application.

35 Rider J, *Wind Forecasting Service Cost Recovery Rider*, recovers from wind-powered generating units the costs paid by the AESO for provision of a wind forecasting service.[7] Rider J has been and will continue to be adjusted to recover actual costs of the wind forecasting service on a prospective basis. Costs paid by the AESO in 2015 related to the wind forecasting service are being recovered by the AESO through Rider J and are not subject to retrospective deferral account reconciliation. The AESO has not included reconciliation of wind forecasting service costs in this application.

36 Any adjustments relating to 2015 or prior years which occurred after December 31, 2015 are not included in this application, and will be addressed in a future deferral account reconciliation application. As of May 31, 2016, several adjustments to costs and revenue in 2015 and prior years have occurred after December 31, 2015 which total to a net shortfall of $3.5 million and will be included in the AESO's 2016 deferral account reconciliation application.

2.2 Production Month Presentation

37 All costs and revenue included in this application are presented on a production month basis. For those years included in this 2014 deferral account reconciliation application, adjustments to costs or revenue arising after the month to which an initial invoice pertains are attributed back to that original month, with two exceptions.

38 The first exception to the production month presentation of costs concerns the AESO's own administrative costs, which comprise general and administrative costs, other industry costs, and capital costs of the AESO. These costs by their nature are not attributable to specific matters of "production" and have simply been attributed to the month in which they occur. In effect, for the AESO's own administrative costs, an accounting month basis is considered to be equivalent to a production month basis. The AESO's own administrative costs account for 6% to 9% of the AESO's annual revenue requirements,

[7] Application 1605961, Proceeding 530, Exhibit 0070.00.ISO-530, Application (Revised), Paragraph 316-322

and attempts to analyze and attribute such costs to specific production months would be expected to have insignificant effects on the final allocations to market participants.

39 The second exception to the production month presentation of revenue is Rider C amounts, which are treated on an accounting month basis. Rider C amounts charge or refund forecast deferral account balances relating to the quarter in which the rider applies as well as accumulated balances from prior quarters. However, in deferral account reconciliation applications, deferral account balances for each production month are recalculated based on recorded costs and recorded revenue. Shortfalls and surpluses are allocated to market participants, and Rider C amounts are then netted against these shortfalls and surpluses to determine final amounts to be refunded to or collected from each market participant. Because of this recalculation of deferral account allocations, Rider C amounts result in the same net refunds or charges whether treated on a production month or accounting month basis.

40 The method of allocating the deferral account balances for each of these years to market participants is discussed in detail in Section 7 of this application.

2.3 Deferral Account Balances

41 Table 2-2 summarizes the deferral account balances and adjustments addressed in this application for deferral account years 2015, 2014, 2013, 2012, 2011 and 2010.

42 Deferral account shortfalls or surpluses resulting from differences between costs and revenue, before any collections or refunds through Rider C or prior deferral account reconciliations, were:

- a shortfall of $237.4 million or 13.3% of costs for 2015;
- a shortfall of $214.9 million or 12.7% of costs for 2014;
- a shortfall of $217.7 million or 13.5% of costs for 2013;
- a shortfall of $147.9 million or 10.6% of costs for 2012;
- a shortfall of $166.5 million or 13.5% of costs for 2011; and
- a shortfall of $108.1 million or 12.3% of costs for 2010.

43 In each year, the deferral account balances were forecast on a quarterly basis and charged or refunded through Rider C during the relevant year. As well, all years except 2015 have been subject to one or more prior deferral account reconciliations, previously filed with and reviewed by the Commission. The initial variances between costs and revenue summarized above have been in large part addressed through Rider C and prior deferral account reconciliations, such that the net deferral account balances remaining which are included in this deferral account reconciliation are:

- a shortfall of $17.2 million or 1.0% of costs for 2015,
- a surplus of $10.8 million or 0.6% of costs for 2014,
- a surplus of $12.2 million or 0.8% of costs for 2013,
- a surplus of $4.5 million or 0.3% of costs for 2012,
- a shortfall of $4.7 million or 0.4% of costs for 2011, and
- a surplus of $1.0 million or 0.1% of costs for 2010.

Table 2-2 Summary of 2015 Deferral Account Reconciliation Application, $ 000 000

	Deferral Account Reconciliations						Totals
Component	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2015 to 2010**
Base Rate Revenue							
Connection	$1,412.8	$1,301.7	$1,005.7	$886.9	$736.1	$580.7	
Operating Reserve	144.1	180.0	361.5	320.1	286.7	136.3	
Transmission Constraint Rebalancing	-						
Voltage Control	0.9	1.8	21.9	28.5	32.0	35.0	
Other System Support Services	2.9	2.7	5.6	6.5	6.8	6.8	
Total Base Rate Revenue	**$1,560.7**	**$1,486.2**	**$1,394.6**	**$1,241.9**	**$1,061.7**	**$758.8**	**$7,503.9**
Tariff Revenue Offsets	**($9.3)**	**($10.1)**	**($2.8)**	**$1.4**	**$7.6**	**$13.3**	**$0.0**
Costs Paid							
Wires	($1,527.4)	($1,376.2)	($1,111.5)	($916.0)	($776.0)	($630.2)	
Ancillary Services	(162.9)	(213.8)	(398.3)	(375.1)	(367.4)	(174.2)	
Other Industry	(14.8)	(15.3)	(17.0)	(18.6)	(15.5)	(15.1)	
General & Administrative	(83.7)	(85.7)	(82.7)	(81.5)	(76.8)	(60.7)	
Total Costs Paid	**($1,788.8)**	**($1,691.0)**	**($1,609.5)**	**($1,391.2)**	**($1,235.7)**	**($880.2)**	**($8,596.4)**
Deferral Account							
(Shortfall) Surplus	($237.4)	($214.9)	($217.7)	($147.9)	($166.5)	($108.1)	($1,092.4)
Rider C Collection (Refund)	220.2	185.5	247.9	158.5	185.8	104.6	1,102.5
Prior DAR[1] Collection (Refund)	-	40.2	(18.0)	(6.1)	(24.0)	4.5	(3.4)
Net (Shortfall) Surplus	**($17.2)**	**$10.8**	**$12.2**	**$4.5**	**($4.7)**	**$1.0**	**$6.7**

Note: Numbers may not add due to rounding.

[1] DAR means Deferral Account Reconciliation.

44 Adjustments to costs and revenue also occur several or many months after the end of the calendar year to which the costs and revenue relate. Such adjustments arise for a variety of reasons, including:

- metered data adjustments, corrections, or restatements;
- Commission decisions on TFO costs and other matters;
- post-final adjustment mechanism ("PFAM") data restatements;
- vendor invoice corrections;
- revisions to contract terms; and
- revisions to rate calculations or application.

45 The net impact of the 2015 to 2010 deferral account reconciliation and re-reconciliations provided in this application is a net surplus of $6.7 million, as provided in Table 2-2.

46 For comparison with Table 2-2, Table 2-3 provides a summary of comparable amounts as included in the AESO's 2013-2014 deferral account reconciliation application. In addition, Table 2-4 summarizes the differences between Tables 2-2 and 2-3, which reflect the net impact on deferral account balances of all cost and revenue transactions that have not been included in a prior deferral account reconciliation application.

47 The variances between costs and base rate revenue included in Table 2-2 affect the deferral account balances to be collected from or refunded to market participants. Adjustments to base rate revenue received from individual market participants also affect the allocation of the deferral account balances to those market participants, since deferral account balances are allocated based on a market participant's base rate revenue when a deferral account is subject to full reconciliation as for all years in this application.

48 The final allocations to individual market participants are therefore dependent on both deferral account balances and base rate revenue for market participants receiving system access service under Rate DTS or Rate FTS. The allocations to individual market participants by year are provided in Appendices E, G, and H of this application.

Table 2-3 Summary of 2013-2014 Deferral Account Reconciliation Application, $ 000 000

	Deferral Account Reconciliations									Totals
Component	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2014 to 2007**
Revenue										
Connection		$1,291.8	$1,002.9	$888.4	$743.7	$594.0	$529.4	$493.6	$478.5	
Operating Reserve		180.1	361.5	320.1	286.7	136.3	98.5	183.5	146.0	
Transmission Constraint Rebalancing										
Voltage Control		1.8	21.9	28.5	32.0	35.0	45.4	52.1	52.9	
Other System Support Services		2.7	5.6	6.5	6.8	6.8	7.9	8.2	8.0	
Total Revenue		**$1,476.4**	**$1,391.9**	**$1,243.3**	**$1,069.3**	**$772.1**	**$681.2**	**$737.4**	**$685.3**	**$8,056.8**
Tariff Revenue Offsets										
Costs Paid										
Wires		($1,387.6)	($1,123.8)	($920.8)	($771.3)	($631.2)	($581.7)	($493.9)	($449.1)	
Ancillary Services		(213.6)	(398.2)	(374.9)	(367.4)	(174.2)	(134.7)	(313.8)	(237.2)	
Other Industry		(15.3)	(17.0)	(18.6)	(15.5)	(15.1)	(14.2)	(11.5)	(4.8)	
General & Administrative		(85.7)	(82.7)	(81.5)	(76.8)	(60.7)	(58.2)	(51.3)	(44.3)	
Total Costs Paid		**($1,702.1)**	**($1,621.8)**	**($1,395.7)**	**($1,231.1)**	**($881.2)**	**($788.9)**	**($870.5)**	**($735.4)**	**($9,226.6)**
Deferral Account										
(Shortfall) Surplus		($225.7)	($229.9)	($152.4)	($161.8)	($109.1)	($107.7)	($133.1)	($50.1)	($1,169.8)
Rider C Collection (Refund)		185.5	247.9	158.5	185.8	104.6	96.8	133.5	58.1	1,170.8
Prior DAR [1] Collection (Refund)		-	-	(5.6)	(14.9)	16.9	10.5	(0.6)	(8.1)	(1.8)
Net Surplus (Shortfall)		**($40.2)**	**$18.0**	**$0.5**	**$9.1**	**$12.4**	**($0.4)**	**($0.2)**	**($0.1)**	**($0.8)**

Note: Numbers may not add due to rounding.

[1] DAR means Deferral Account Reconciliation.

Table 2-4 Summary of 2015 Net Deferral Account Transactions Since 2013-2014 Deferral Account Reconciliation, $ 000 000

	Deferral Account Reconciliations[1]						Totals
Component	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2015 to 2010**
Base Rate Revenue							
Connection [2]	$1,412.8	$9.9	$2.8	($1.4)	($7.6)	($13.3)	
Operating Reserve	144.1	(0.1)	(0.0)	-	-	-	
Transmission Constraint Rebalancing	-						
Voltage Control	0.9	(0.0)	(0.0)	-	-	-	
Other System Support Services	2.9	(0.0)	(0.0)	-	-	-	
Total Base Rate Revenue	**$1,560.7**	**$9.8**	**$2.8**	**($1.4)**	**($7.6)**	**($13.3)**	**$1.550.9**
Tariff Revenue Offsets [2]	**($9.3)**	**($10.1)**	**($2.8)**	**$1.4**	**$7.6**	**$13.3**	**$0.0**
Costs Paid							
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 & Administrative	(83.7)	-	-	-	-	-	
Total Costs Paid	**($1,788.8)**	**$11.2**	**$12.3**	**$4.5**	**($4.7)**	**$1.0**	**($1,764.5)**
Deferral Account							
(Shortfall) Surplus	($237.4)	$10.8	$12.2	$4.5	($4.7)	$1.0	($213.5)
Rider C Collection (Refund)	220.2	-	-	-	-	-	220.2
Prior DAR [3] Collection (Refund)	-	-	-	-	-	-	-
Net (Shortfall) Surplus	**($17.2)**	**$10.8**	**$12.2**	**$4.5**	**($4.7)**	**$1.0**	**$6.7**

Note: Numbers may not add due to rounding.

[1] Years 2009, 2008 and 2007 are not shown as there are no adjustments in the 2015 application for these years.

[2] The 2013-2014 DAR application included base rate revenue and revenue offsets in a single revenue line. This application differentiates between those amounts, which gives an appearance of variances in 2014 to 2010 in base rate connection revenue with variances of opposite sign in tariff revenue offsets. Deferral account shortfalls and surpluses are not affected by this change in presentation.

[3] DAR means Deferral Account Reconciliation.

2.4 Cost Prudency Considerations

49 The prudency of TFO wires costs is assessed by the Commission as part of its approval of TFO tariff applications and TFO deferral account reconciliation applications. As discussed in Section 3.1.1 of this application, the wires costs included in this application reflect the approach approved by the Commission in Decision 2011-275.

50 The AESO's own administrative costs are approved by the AESO Board (consisting of the "ISO members" appointed under section 8 of the Act) in accordance with the *Transmission Regulation*. Once these costs are approved by the AESO Board, subsection 46(1) of the *Transmission Regulation* provides that the AESO's own administrative costs must be considered by the Commission to be prudent, unless an interested person satisfies the Commission otherwise.

51 Similarly, ancillary services costs and line losses costs are also approved by the AESO Board. However, as stated by the Commission in Decision 2014-242:

> *… there is no equivalent provision to Section 46 (1) of the Transmission Regulation that provides an interested party with the ability to argue the reasonableness of [ancillary service costs and costs for line losses] before the Commission. Instead, Section 20 of the Electric Utilities Act and sections 15, 17, 33 and 34 of the Transmission Regulation authorize and, in some instances, direct the AESO to establish rules related to the calculation and recovery of ancillary service costs and costs for line losses. Consequently, where ISO rules are proposed or created for the calculation and recovery of ancillary service costs or the costs for line losses, the Commission's oversight of these costs is addressed through the objection and complaint provisions found in sections 20 and 25 of the Electric Utilities Act, respectively.*[8]

52 With respect to the AESO's own administrative costs, despite the best efforts of the AESO, budgets and forecast costs occasionally do not fully accommodate the actual costs needed to accomplish the established business priorities and plans of the AESO and to continue to meet the AESO's legislated mandate. AESO management actively manages the organization's financial affairs on a timely basis, including receiving monthly updates of the AESO's financial results and regular updates on corporate goal achievement and key human resource statistics. The monthly financial review includes a comparison of actual costs to budget and forecast amounts, with analysis of material variances for ancillary services costs, losses costs, and the AESO's own administrative costs.

53 The AESO's budget review and approval process, developed in consultation with market participants, includes an agreed-upon practice when estimated costs are expected to exceed budgeted amounts specifically with respect to own administrative costs. Variances above a specified threshold are first reviewed with market participants prior to presentation to the AESO Board for consideration and approval. A request for additional budget approval may be required to accomplish specific business priorities or to meet the AESO's mandate, and would only be made after consideration has been given to managing the timing or reducing the scope of other business priorities to remain within budget.

54 The AESO considers that the structure and approach described above provides an appropriate and adequate process to establish and manage the AESO's budget.

55 Where significant adjustments to 2014 or prior year costs are included in this deferral account reconciliation, this application and related proceeding are the proper venue for consideration of the prudence of those adjustments to such costs. The AESO notes, however, that the prudence of AESO

[8] Decision 2014-242 dated August 21, 2014, Section 3.2, Page, 8 at paragraph 36.

costs incurred with respect to 2014 and prior years which were already included in the AESO's 2013-2014 deferral account reconciliation application was considered in the 2013-2014 deferral account reconciliation application and prior proceedings, and should not be reviewed again.

56 The presentation of second reconciliations of the AESO's 2014 and 2013 deferral accounts, of a third reconciliation of the AESO's 2012 deferral accounts and of fourth reconciliations of the AESO's 2011 and 2010 deferral accounts in this application does not imply that all costs relating to those years are again subject to review. Rather, the second, third and fourth reconciliations are provided to appropriately allocate all costs related to those years to market participants, not to re-examine the prudency of costs which have already been approved.

57 The AESO has accordingly provided schedules and explanations of significant variances by line item for 2015 and of significant adjustments to costs for 2014 and prior years where such adjustments have not previously been included in a deferral account reconciliation application, in Sections 3, 4, 5 and 6 of this application.

2.5 Reconciliation to Financial Statements

58 The AESO's audited financial statements present costs and revenue on a financial or accounting year basis rather than on a production month basis as discussed in Section 2.2 of this application. The audited financial statements include costs and revenue which were known as of the end of the year. In contrast, deferral account reconciliations in this application include actual and anticipated cost and revenue adjustments which may be settled months after the financial statements are audited, with those adjustments attributed back on a production month basis to the applicable year.

59 Therefore, costs, revenue and deferral account balances included in this application have been reconciled to the costs and revenue reported in the AESO's audited income statements and balance sheets for the years included in this application. The reconciliations are provided in Appendices A and B of this application.

60 The AESO's financial results or annual reports for the years included in the application (which include audited financial statements) are provided in Appendix C.

2.6 Deferral Account Reconciliation Process Controls

61 The AESO's deferral account reconciliation process includes controls to ensure complete and accurate deferral account reconciliations. The controls include:

- input controls such as reconciling data transferred to the deferral reporting system with source data and ensuring all values are assigned to production months; and
- process controls such as reconciling individual report totals to summary reports, testing and verifying the calculations embedded in the deferral reporting system, and reconciling balances to audited financial statements as provided in Appendices A and B.

62 As discussed above, the AESO's deferral account reconciliation process utilizes a software program for the preparation and filing of its deferral account reconciliation applications, including this application. Some of the controls discussed above are integrated into the software program.

63 The AESO modifies and validates the software program used to prepare deferral account reconciliations and allocations for each successive annual reconciliation.

64 In summary, the AESO has prepared and filed this 2015 deferral account reconciliation in the same manner as its previous applications and accordingly considers that this application continues to reflect the accuracy of the deferral reporting system and related AESO processes.

2.7 Market Participant Confidentiality

65 This application details the allocation of deferral account balances to individual market participants receiving system access service under Rate DTS and Rate FTS of the ISO tariff, which requires the disclosure of base rate revenue received from individual market participants. The application also includes the refunds to and collections from those individual market participants.

66 Regulated distribution utilities will normally include their deferral account refunds and collections in their own distribution tariff applications to the Commission or city councils and thereby make the deferral account amounts public. Those utilities — namely, ATCO Electric, ENMAX Power Corporation ("ENMAX"), EPCOR Distribution & Transmission Inc. ("EPCOR"), FortisAlberta, the City of Lethbridge, and the City of Red Deer — are therefore identified by name in the allocation tables in the appendices of this application.

67 The confidentiality of AESO direct-connect Rate DTS and Rate FTS market participants is protected by assigning a number to each AESO direct-connect market participant. The numbers assigned to a specific market participant are not necessarily the same for each deferral account year in this application, and are not necessarily the same as those used in prior applications.

68 After filing this application, the AESO will distribute to each Rate DTS and Rate FTS market participant the applicable numbers for the deferral account reconciliation years included, as discussed in more detail in Section 7.2 of this application.

2.8 Future Deferral Account Reconciliations

69 For future deferral account reconciliations, the AESO expects to:

- continue to use its deferral account reconciliation software;
- prepare the reconciliation applications based on initial settlement volumes and a December 31 data cut-off date;
- exclude year-end balances from the calculation of following-year Rider C amounts; and
- begin preparation of future deferral account reconciliation applications in February of each year.

70 The deferral account reconciliation in this application is based on initial settlement volumes for 2015, and a December 31, 2015, data cut-off date. The calculation of the 2016 first quarter Rider C amount excluded 2015 year-end balances. The AESO expects to utilize the same approach in future deferral account reconciliations, and is not seeking any approval or direction on these matters for future deferral account reconciliations at this time.

71 During the 2014 ISO tariff application proceeding, the AESO summarized its consultation on and consideration of potential changes to Rider C and to deferral account reconciliation processes. In Decision 2014-242, the Commission stated that, except as set out in Section 7.3 of the decision, it was not making any "specific directions to the AESO in respect of deferral account processes."[9] In Section 7.3 of the decision, the Commission directed the AESO as follows:

> *Therefore, the Commission directs the AESO to discuss the related matters of annual tariff updates, deferral account reconciliation processes and Rider C design with stakeholders prior to filing its next comprehensive GTA, and to provide a report on the*

[9] Decision 2014-242 dated August 21, 2014, Section 7.2, page 137, paragraph 691

outcome of any such discussions, including any recommended changes (if any) within its next comprehensive GTA[10] [general tariff application].

72 The AESO accordingly includes no proposals for changes to Rider C or the deferral account reconciliation process in this application. The AESO has begun consulting with stakeholders in consideration of such potential changes and will report on its discussions and conclusions at the time of its next ISO tariff application, currently anticipated to be filed in early 2017.

[10] Decision 2014-242 dated August 21, 2014, Section 7.3, page 137, paragraph 704

3 2015 Financial Results and Deferral Account Balance

73 The AESO's 2015 costs that are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, and the AESO's own administrative costs (which include other industry costs, general and administrative costs, and capital costs). The AESO's 2015 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

74 In determining the financial results and deferral account balance for 2015, all cost and revenue transactions that occurred from January 1, 2015, to December 31, 2015 and that relate to 2015 have been included in the reconciliation. These transactions establish the 2015 production month data for deferral account reconciliation purposes in this application. The result of these transactions is $1,788.8 million in costs and $1,771.5 million in market participant revenue (including net Rider C collections and refunds) being attributed to 2015. The difference between costs and revenue is a shortfall of $17.2 million, which is the net deferral account balance for 2015.

75 The AESO notes that cost and revenue transactions that occurred from January 1, 2015, to December 31, 2015 may also relate, in whole or in part, to years prior to 2015. In such instances, the transaction (or part of the transaction) which relates to a prior year has been assigned to the prior year, in accordance with the production month presentation described in Section 2.2 of this application. Detail on the assignment between 2015 and prior years for transactions which occurred in 2015 is provided in Appendix D-1 of this application.

3.1 2015 Cost Variances

76 The AESO's 2015 revenue requirement includes costs either subject to approval by the Commission (for TFOs) or approved by the AESO Board (for ancillary services and the AESO's own administrative costs).

77 The TFO wires costs included in the AESO's 2015 revenue requirement were based on the TFO tariff approved by the Commission for, or applied for by, each TFO at the time the AESO prepared the 2015 ISO tariff update[11] in the summer of 2015, as filed on August 18, 2015. The AESO received approval in Commission Decision 20753-D02-2015 issued on December 21, 2015, for rates to be effective January 1, 2016. The TFO wires costs reflected the status of each TFO's application for its 2015 tariff in accordance with the approach described in the AESO's 2010 ISO tariff application and approved in Commission Decision 2011-275, as discussed in more detail in Section 3.1.1 below.

78 Following consultation with stakeholders, AESO management submitted the *AESO 2015 Business Plan and Budget Proposal* to the AESO Board on October 29, 2014. This document detailed the consultation process and proposals for the AESO's business plan and budget as it related to forecast ancillary services costs, forecast losses costs, and the AESO's business priorities and own administrative budget for 2015. The *AESO 2015 Business Plan and Budget Proposal* was also provided to stakeholders and posted on the AESO website.

79 The *AESO Board Decision 2015-BRP-001* dated December 18, 2014 approved the 2015 forecast costs included in the *AESO 2015 Business Plan and Budget Proposal* for ancillary services, losses, and the AESO's own administrative costs.

80 Additional information on the AESO's business priorities and own administrative costs budget for 2015 is available on the AESO website at www.aeso.ca by following the path About AESO ► Our Business ► Business Plan and Budget ► 2015 Budget.

[11] Proceeding 20753, Exhibit X0027 – Appendix C with amendments, 'C-1 Rev Req'

81 Table 3-1 presents the AESO's 2015 revenue requirement, including amounts that are approved by the Commission (for TFOs) and by the AESO Board (for ancillary services and the AESO's own administrative costs) as discussed above. Table 3-1 also includes recorded costs as incurred or accrued for 2015, and variances between approved and recorded costs in both dollar amounts and as a percentage of approved costs.

82 Total 2015 recorded costs are $4.4 million (or 0.2%) lower than the total 2015 approved forecast. This variance consists of 2015 recorded costs being:

- $3.4 million (or 0.2%) higher than the 2015 approved costs for wires,
- $5.2 million (or 3.1%) lower than the 2015 approved costs for ancillary services,
- $1.9 million (or 11.3%) lower than the 2015 approved costs for other industry costs, and
- $0.6 million (or 0.8%) lower than the 2015 approved costs for general and administrative costs.

83 Variances arise due to a number of factors, including finalization of TFO wires costs through Commission decisions, variances from forecast of volumes and pool price, changes in AESO schedules and priorities, and generally-expected differences between recorded and forecast costs. The AESO considers a line item variance to be significant when it exceeds ±$8.0 million, which represents approximately 10% of the $83.7 million general and administrative costs component of the AESO's 2015 revenue requirement. A line item variance smaller than ±$8.0 million is also considered significant when it is both at least ±$0.8 million and at least ±10% of the approved line item amount. The ±$0.8 million threshold represents approximately 1% of the $83.7 million general and administrative costs component of the AESO's revenue requirement, while the AESO considers ±10% to be a reasonable threshold below which specific variance explanations are not required.

84 Variances exceeding these thresholds are shaded in Table 3-1, with explanations provided by line number in the following discussion. Where variances were either lower than ±$0.8 million or less than ±10% (except where such variance is ±$8.0 million or higher) explanations are not provided, as such variances are small enough that specific variance explanations are not required.

Table 3-1 2015 Revenue Requirement and Recorded Costs, $ 000 000

Line No.		Approved Forecast	Recorded Costs	Variance Over (Under) $	%
		(a)	(b)	(c)=(b)-(a)	(d)=(c)÷(a)
	WIRES				
	TFO Wires-Related Costs				
1	AltaLink	666.8	660.8	(6.0)	(0.9%)
2	ATCO Electric	662.0	677.3	15.3	2.3%
3	Isolated Generation	(2.9)	(2.4)	0.4	(15.2%)
4	Subtotal ATCO Costs	659.1	674.9	15.7	2.4%
5	ENMAX Power Corporation	74.9	73.9	(1.0)	(1.3%)
6	EPCOR Distribution & Transmission	97.8	93.9	(4.0)	(4.1%)
7	City of Lethbridge	6.1	5.7	(0.4)	(6.1%)
8	TransAlta Corporation	4.9	4.9	-	-
9	City of Red Deer	3.6	3.5	(0.1)	(4.0%)
10	FortisAlberta (Farm Transmission)	4.7	4.7	-	-
11	**Subtotal TFO Wires-Related Costs**	**1,518.0**	**1,522.3**	**4.3**	**0.3%**
	Other Costs				
12	Invitation to Bid on Credits (IBOC)	1.5	1.4	(0.1)	(8.8%)
13	Location Based Credit Standing Offer (LBC SO)	4.5	3.7	(0.8)	(17.0%)
14	**Subtotal IBOC/LBC SO Costs**	**6.0**	**5.1**	**(0.9)**	**(15.0%)**
15	**TOTAL WIRES COSTS**	**1,524.0**	**1,527.4**	**3.4**	**0.2%**
	ANCILLARY SERVICES				
	Operating Reserve				
	Active				
16	Regulating	15.7	33.0	17.3	110.5%
17	Spinning	49.4	42.0	(7.3)	(14.8%)
18	Supplemental	23.9	30.2	6.4	26.6%
19	**Subtotal Active Reserve**	**88.9**	**105.2**	**16.3**	**18.4%**
	Standby				
20	Regulating	11.2	5.0	(6.2)	(55.2%)
21	Spinning	19.7	19.8	0.1	0.7%
22	Supplemental	10.8	8.3	(2.5)	(23.1%)
23	**Subtotal Standby Reserve**	**41.6**	**33.1**	**(8.5)**	**(20.4%)**
24	Trading Fees & Other Related Charges	-	(1.0)	(1.0)	-
25	**Subtotal Operating Reserve**	**130.5**	**137.3**	**6.9**	**5.3%**
	Other Ancillary Services				
26	Black Start	5.0	2.1	(2.9)	(57.5%)
27	Transmission Must-Run (TMR)	3.0	1.3	(1.7)	(56.4%)
28	Load Shed Service for Imports (LSSi)	25.0	17.4	(7.6)	(30.4%)
29	Reliability Services from BC	2.1	2.1	-	-
30	Transmission Constraint Rebalancing (TCR)	-	-	-	-
31	**Subtotal Other Ancillary Services**	**35.1**	**23.0**	**(12.2)**	**(34.6%)**
	Poplar Hill/ILRAS				
32	Poplar Hill	2.5	2.6	0.1	2.7%
33	Interruptible Load Remedial Action Scheme (ILRAS)	-	-	-	-
34	Generator Remedial Action Scheme (RAS)	-	-	-	-
35	**Subtotal Poplar Hill/ILRAS**	**2.5**	**2.6**	**0.1**	**2.7%**
36	**TOTAL ANCILLARY SERVICES**	**168.1**	**162.9**	**(5.2)**	**(3.1%)**

Table 3-1 2015 Revenue Requirement and Recorded Costs, $ 000 000 (cont'd)

Line No.		Approved Forecast	Recorded Costs	Variance Over (Under) $	%
		(a)	(b)	(c)=(b)-(a)	(d)=(c)÷(a)
	OTHER INDUSTRY COSTS				
37	Regulatory Process Costs	1.5	0.4	(1.1)	(70.1%)
38	Western Electricity Coordinating Council (WECC)	1.2	1.9	0.7	56.0%
39	Share of Commission Costs	14.0	12.5	(1.5)	(10.8%)
40	**TOTAL OTHER INDUSTRY COSTS**	**16.7**	**14.8**	**(1.9)**	**(11.3%)**
	GENERAL AND ADMINISTRATIVE COSTS				
	Administrative Costs				
41	Staff and Benefits	44.6	47.7	3.1	7.0%
42	Contract Services and Consultants	7.6	4.9	(2.6)	(34.8%)
43	Administration	3.7	3.0	(0.7)	(19.1%)
44	Facilities [1]	5.8	5.5	(0.4)	(6.1%)
45	Computer and Telecomm Services and Maintenance	5.8	6.4	0.6	9.7%
46	**Total Administrative Costs**	**67.5**	**67.5**	**(0.0)**	**(0.1%)**
	General Costs				
47	Interest	(0.2)	(0.1)	0.1	(70.5%)
48	Amortization	17.0	16.3	(0.8)	(4.4%)
49	**Total General Costs**	**16.8**	**16.2**	**(0.6)**	**(3.6%)**
50	**TOTAL GENERAL & ADMIN COSTS**	**84.3**	**83.7**	**(0.6)**	**(0.8%)**
51	**Total G&A and Other Industry Costs**	**101.0**	**98.5**	**(2.5)**	**(2.5%)**
52	**TOTAL REVENUE REQUIREMENT**	**1,793.1**	**1,788.8**	**(4.4)**	**(0.2%)**
53	**TOTAL CAPITAL [2]**	**29.0**	**28.6**	**(0.4)**	**(1.4%)**

Notes: Numbers may not add due to rounding.
Shaded numbers indicate significant variances which are discussed in the text.
[1] Amortization of Rent Free Period not included in 2015 Recorded Costs on Line 44.
[2] The numbers shown represent the AESO's total corporate capital expenditures. Only a portion is allocated to the transmission function (see Table 3-2 for more detail).

3.1.1 Wires Costs

85 The AESO's 2015 wires costs forecast is based on the AESO's 2015 ISO tariff update application[12] filed August 18, 2015 and approved by the Commission in Decision 20753-D02-2015 issued on December 21, 2015. Total wires costs (shown in line 15 of Table 3-1 above) include costs related to invitation to bid on credit ("IBOC") and location based credit standing offer ("LBC SO") programs, which were initiated to provide a non-wires solution to transmission wires issues in Alberta and for which the AESO forecast costs in conjunction with ancillary services costs approved by the AESO Board.

86 The forecast of TFOs' wires costs (shown in lines 1-10 of column (a) of Table 3-1 above) has been calculated in accordance with the following approach, which was described in the AESO's 2010 ISO tariff application and approved in Commission Decision 2011-275:

[12] Proceeding 20753, Exhibit 0027, Appendix C– 2015 Rates Calculations, Tab C-1 2015 Updated Forecast Costs

(i) If a TFO has received final Commission approval for its 2015 tariff, the AESO includes the approved cost for that 2015 TFO tariff.

(ii) If a TFO has applied for its 2015 tariff, the Commission has issued an initial decision on the application, and the TFO has submitted a refiling in compliance with the decision, the AESO includes the 2015 TFO tariff costs included in the refiling.

(iii) If a TFO has applied for its 2015 tariff but the Commission has not yet issued an initial decision on the application or an initial decision has been issued but the TFO has not yet submitted its compliance refiling, the AESO includes the tariff costs most recently approved by the Commission on a final basis for the TFO plus 72% of any increase or decrease included in the TFO's 2015 tariff application above or below the prior approved costs.

(iv) If a TFO has not yet applied for its 2015 tariff, the AESO includes the TFO tariff costs most recently approved by the Commission on either a final or interim basis.

87 The specific determinations of the forecast wires cost for each TFO, shown in lines 1-10 of column (a) of Table 3-1 above, is as follows.

(a) **AltaLink** — AltaLink filed for approval for 2015 TFO tariff costs of $680.5 million and had not received a decision as of December 31, 2015. AltaLink received approval for 2014 TFO tariff costs of $621.4 million in Commission Decision 2014-258. As well, AltaLink filed for approval a 2014 deferral account reconciliation shortfall of $14.2 million and had not received a decision as of December 31, 2015. The AESO accordingly included 72% of the applied for increase for 2015 as well as the additional 72% of the 2014 deferral account reconciliation adjustment for $666.8 million as the forecast TFO tariff costs for AltaLink for 2015.

(b) **ATCO Electric** — ATCO Electric filed for approval for 2015 TFO tariff costs of $694.3 million and had not received a decision as of December 31, 2015. ATCO Electric received approval for 2014 TFO tariff costs of $579.0 million in Commission Decision 2014-348.The AESO accordingly included 72% of the applied for increase for $662.0 million as the forecast TFO tariff costs for ATCO Electric for 2015.

ATCO Electric's TFO tariff costs are offset by payments to the AESO in respect of pool price for electric energy provided to isolated communities in accordance with the *Isolated Generating Units and Customer Choice Regulation*. The isolated generation cost offset was estimated at $2.9 million in 2015 based on 2014 recorded volumes for isolated communities and the 2015 forecast pool price.

The 2015 net forecast cost for ATCO Electric was $659.1 million.

(c) **ENMAX** — ENMAX applied in a refiling application for approval for 2015 TFO tariff costs of $74.9 million. The AESO has accordingly included the 2015 amount as filed.

(d) **EPCOR** — EPCOR applied for approval for 2015 TFO tariff costs of $100.8 million and had not received a decision as of December 31, 2015. EPCOR received approval for 2014 TFO tariff costs of $90.1 million in Commission Decision 3474-D01-2015. The AESO accordingly included 72% of the applied for increase for $97.8 million as the forecast TFO tariff costs for EPCOR for 2015.

(e) **City of Lethbridge** — The City of Lethbridge received interim approval for 2015 TFO tariff costs of $6.1 million in Commission Decision 2014-309. This amount is unchanged from final approved City of Lethbridge 2014 TFO tariff costs.

(f) **TransAlta Corporation** — TransAlta Corporation (TransAlta) applied in a refiling application for approval for 2014 TFO tariff costs of $4.9 million. TransAlta received approval for interim 2015 TFO tariff costs of $4.5 million in Commission Decision 2014-369. The AESO considers the 2014 refiled costs to be a more reasonable forecast of 2015 costs than the 2015 interim approved costs which are a continuation of 2012 final approved costs. The AESO accordingly included $4.9 million as the forecast TFO tariff costs for TransAlta for 2015.

(g) **City of Red Deer** — The City of Red Deer applied for approval for 2015 TFO tariff costs of $3.5 million and had not received a decision as of December 31, 2015. The City of Red Deer received approval for 2014 TFO tariff costs of $3.9 million in Commission Decision 2013-214. The AESO accordingly included 72% of the applied for decrease for $3.6 million as the forecast TFO tariff costs for City of Red Deer for 2015.

(h) **FortisAlberta (Farm Transmission)** — Section 32 of the Act requires the AESO to pay owners of electric distribution systems for "farm transmission costs" as defined in the Act. The 2015 forecast farm transmission cost for FortisAlberta was $4.7 million as approved in Commission Decision 2014-351 (Errata).

88 Similar to how the forecast wires costs includes applied-for and interim application amounts,[13] the AESO incorporates and records these costs as an "accrual".

89 The recorded 2015 wires costs were based on billings by the TFOs to the AESO based on 2015 TFO tariffs, approved on an interim or final basis, and on accruals estimated by the AESO using the approach described above. Final approvals were not issued before the end of 2015 for the 2015 TFO tariffs of AltaLink, ATCO Electric, EPCOR, City of Lethbridge, TransAlta, and City of Red Deer.

90 Where final costs approved differ from the costs included in this deferral account reconciliation (items (a), (b), (d), (e), (f), (g), and (h) above), the differences will be included in the next deferral account reconciliation application filed after the final costs are approved.

91 The recorded wires costs for 2015 totaled $1,527.4 million, which is $3.4 million (or 0.2%) higher than the 2015 forecast of $1,524.0 million on which 2015 ISO tariff rates were based. The variance is primarily due to costs included in ATCO Electric's 2015-2017 general tariff application filing.

Line 2 ATCO Electric

92 The 2015 recorded cost for ATCO Electric wires is $677.3 million, which is $15.3 million (or 2.3%) higher than the 2015 forecast of $662.0 million. In March 2015, ATCO Electric applied for 2015 TFO wires costs of $694.3 million and has since updated the 2015 TFO wires costs amount to $720.0 million. The AESO has included 72% of the applied for increase, resulting in an increase of $15.8 million. As well, $0.4 million of carrying charges resulting from ATCO Electric's 2012 deferral refund was attributed to the 2015 production year.

Line 13 Location Based Credit Standing Offer

93 The 2015 recorded cost for the LBC SO program was $3.7 million, which is $0.8 million (or 17.0%) lower than the 2015 approved forecast of $4.5 million. The LBC SO program was initiated in 2001 as an incentive for generation to locate closer to major load centers and provide a non-wires solution to transmission wires issues in Alberta. Annual costs are a combination of payments for availability and activation. In 2015, the units were dispatched less than forecast.

[13] Process described in Paragraph 86.

94 The 2015 recorded costs for the remaining TFOs and for the IBOC program did not vary significantly from the 2015 forecast.

3.1.2 Ancillary Services

95 The recorded ancillary service costs for 2015 totaled $162.9 million, which is $5.2 million (or 3.1%) lower than the 2015 approved forecast of $168.1 million. The variance includes:

- higher than forecast active operating reserve costs of $16.3 million (or 18.4%);
- lower than forecast standby operating reserve of $8.5 million (or 20.4%);
- lower than forecast actual costs for black start services of $2.9 million (or 57.5%);
- lower than forecast transmission must-run ("TMR") costs of $1.7 million (or 56.4%); and
- lower than forecast load shed service for imports ("LSSi") costs of $7.6 million (or 30.4%).

Lines 16 to 25 Operating Reserve

96 Operating reserve is generating capacity or load that is held in reserve and made available to the system controller to manage the transmission system supply-demand balance in real time. Operating reserve comprises regulating reserve and contingency reserve (including spinning and supplemental reserve) with the minimum volumes of operating reserve required based on Alberta Reliability Standards.

97 Regulating reserve refers to the amount of synchronized generation that responds to automatic generation control ("AGC") signals that track moment-to-moment fluctuations in supply and demand. Regulating reserve tracks variations in demand that cannot be met with energy dispatches. Because variations in supply and demand can be either positive or negative, regulating reserve has a range with an upper and lower limit. The volumes of regulating reserve are specified as a range in megawatts over which a level of control is required by the AGC system.

98 Spinning reserve is unloaded generation that is synchronized to the system, automatically responsive to deviations in frequency, and ready to serve additional energy in response to an AESO system controller directive. Spinning reserve suppliers must be able to ramp up their generator within 10 minutes of receiving a system controller directive.

99 Supplemental reserve is unloaded generation, off-line generation or load that is ready to serve additional energy or reduce energy within 10 minutes of receiving an AESO system controller directive. Supplemental reserves are not required to respond to frequency deviations.

100 Spinning and supplemental reserve is required in order to restore frequency following the loss of generation in Alberta or in the Western Electricity Coordinating Council ("WECC") region. Alberta Reliability Standards[14] set out requirements for maintaining specific volumes of spinning and supplemental reserve in order to maintain reliability.[15]

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[14] BAL-002-WECC-AB1-2
[15] Refer to Consolidated Authoritative Document Glossary at webpage http://www.aeso.ca/tariff/33475.html for authoritative definitions

Lines 16 to 19 Active Operating Reserve

101 Active operating reserve is necessary to operate the Alberta interconnected electric system ("AIES") securely and meet the Alberta Reliability Standards. 2015 recorded cost was $105.2 million, which is $16.3 million (or 18.4%) higher than the 2015 approved forecast of $88.9 million, and comprise the following amounts:

- For active regulating reserve, the 2015 recorded cost was $33.0 million, which is $17.3 million (or 110.5%) higher than the 2015 approved forecast of $15.7 million.
- For active spinning reserve, the 2015 recorded cost was $42.0 million, which is $7.3 million (or 14.8%) lower than the 2015 approved forecast of $49.4 million.
- For active supplemental reserve, the 2015 recorded cost was $30.2 million, which is $6.4 million (or 26.6%) higher than the 2015 approved forecast of $23.9 million.

102 The recorded cost of all active operating reserve is determined competitively by the operating reserve market. The 2015 recorded pool price was $33.34/MWh, which is $8.15/MWh (or 19.6%) lower than the 2015 approved forecast pool price of $41.49/MWh. The 2015 recorded active operating reserve volumes were 5,333 GWh, which is 362 GWh (or 6.4%) lower than the 2015 approved forecast of 5,696 GWh resulting from lower than forecast generation and load growth. Higher than forecast recorded costs for active operating reserve resulted primarily from costs during short periods of high pool prices. In particular, pool price during on-peak periods (defined as 7:00 AM to 11:00 PM daily) exceeded $200.00/MWh on 15 days (or 4.1%) of the year during 2015. Active operating reserve costs for those 15 days accounted for $49.1 million (or 46.6%) of active operating reserve costs for the entire year.

Lines 20 to 23 Standby Operating Reserve

103 Standby reserve is additional reserve that is available to and dispatched by the AESO system controller in the event an active provider fails to provide active reserve, or if actual requirements are higher than the active reserve procured. Payments for standby reserve include a premium paid for the option to activate the standby reserve and a price that is paid if the reserve is activated.

- For standby regulating reserve, the 2015 recorded cost was $5.0 million, which is $6.2 million (or 55.2%) lower than the 2015 approved forecast of $11.2 million.
- For standby spinning reserve, the 2015 recorded cost was $19.8 million, which is $0.1 million (or 0.7%) higher than the 2015 approved forecast of $19.7 million.
- For standby supplemental reserve, the 2015 recorded cost was $8.3 million, which is $2.5 million (or 23.1%) lower than the 2015 approved forecast of $10.8 million.

104 Standby reserve prices are determined by the offer strategies of the numerous providers involved in the market at any given time.

105 Standby reserve volumes are relatively small and sensitive to unforecastable real-time conditions, including variances from demand forecasts as well as unplanned generation and transmission outages which affect the availability of active reserve providers.

106 In total, 2015 recorded standby operating reserve volumes were higher than the 2015 approved forecast. Standby premium volumes were 2,140 GWh which is 38 GWh (or 1.8%) higher than the 2015 approved forecast of 2,102 GWh. Standby activation volumes were 136 GWh which is 34 GWh (or 33.4%) higher than the 2015 approved forecast of 102 GWh.

Line 24 Trading Fees and Other Related Charges

107 The 2015 recorded cost for trading fees and other related charges was a credit $1.0 million. No corresponding amount was included in the approved forecast. The credit arose from unforecasted collections of non-compliance charges of $1.7 million, offset by trading costs paid to the operating reserve market operator, Alberta Watt Exchange, of $0.7 million.

Lines 26 to 36 Other Ancillary Services

108 The AESO procures other ancillary services for the secure and reliable operation of the AIES. These services are procured through a competitive procurement process where possible, or in such instances where procurements may not be feasible, through bilateral negotiations. These services include black start, TMR, LSSi, reliability services, transmission constraint rebalancing ("TCR"), and Poplar Hills. The AESO notes that there were no contracts for interruptible load remedial action scheme ("ILRAS") and generator remedial action scheme ("RAS") services in 2015 and therefore no forecast or recorded costs.

109 The 2015 recorded cost of other ancillary services was $23.0 million, which is $12.2 million (or 34.6%) lower than the 2015 approved forecast of $35.1 million.

110 Black start service is provided by generators that are able to restart their generation facility with no outside source of power. In the event of a system-wide black-out, black start services are used to re-energize the transmission system and provide start-up power to generators who cannot self-start. Black start providers are required in specific areas of the AIES to ensure the entire system has adequate start-up power. The 2015 recorded cost for black start services was $2.1 million, which is $2.9 million (or 57.5%) lower than the 2015 approved forecast of $5.0 million as the AESO was refining its long-term black start strategy during 2015.

111 TMR service is used to ensure safe and reliable electrical service for a region of the AIES. The service is normally procured by the AESO through a competitive request for proposal ("RFP") process or by conscription of generators without contracts when the need for TMR service is unforeseeable. The determination of when to dispatch a generator to provide TMR service is based on local demand and local transmission constraints. The 2015 recorded cost for TMR was $1.3 million, which is $1.7 million (or 56.4%) lower than the 2015 approved forecast of $3.0 million. The lower than forecast cost was due to the delay of financial settlement for several unforeseeable TMR events which will be settled in 2016. There were no contracts for TMR services in 2015.

112 LSSi is interruptible load that can be armed to trip, either automatically or manually, on the loss of the Alberta-British Columbia intertie to allow for increased import available transfer capacity ("ATC"). The 2015 recorded cost for LSSi was $17.4 million, which is $7.6 million (or 30.4%) lower than the approved forecast of $25.0 million due to a reduced number of arming and tripping events required for operational purposes in 2015.

113 Reliability service is provided through an agreement with Powerex Corp. for grid restoration balancing support in the event of an Alberta blackout and emergency energy in the event of supply shortfall. The new agreement came into effect on April 1, 2015. The 2015 recorded cost did not vary from the 2015 approved forecast.

114 TCR service is provided when the transmission system is unable to deliver electricity from a generator to a given electricity consuming area without contravening reliability requirements. When this occurs, a market participant downstream of a constraint may be dispatched for purposes of TCR under the ISO rules and would receive a TCR payment for energy provided for that purpose. TCR came into effect on November 26, 2015; there was no recorded cost for 2015.

115 The 2015 recorded cost for Poplar Hill did not vary significantly from the 2015 approved forecast.

3.1.3 Other Industry Costs

116 The 2015 recorded other industry cost was $14.8 million, which is $1.9 million (or 11.3%) lower than the 2015 approved forecast of $16.7 million.

117 Regulatory process costs include amounts related to the AESO's regulatory applications and proceedings as well as costs related to objections and complaints involving the ISO tariff. Regulatory process costs

arise from legal and technical resources engaged by the AESO to assist in regulatory proceedings and are not included in the AESO's general and administrative staff, contract services and consultants costs. Regulatory process costs also include costs approved by the Commission for interveners in AESO regulatory applications and proceedings.

Line 37 Regulatory Process Costs

118 The AESO's involvement in regulatory proceedings is not discretionary and the number and complexity of proceedings is difficult to forecast. The 2015 recorded cost of regulatory process costs was $0.4 million, which is $1.1 million (or 70.1%) lower than the 2015 approved forecast of $1.5 million, primarily due to the most significant proceeding for an ISO rule objection and complaint (transmission loss factor proceeding) forecasted as a transmission cost now determined to be an energy market cost.

Line 39 Share of Commission Costs

119 Under the *Alberta Utilities Commission Act*, the Commission recovers its operating and capital costs from industry to whom the Commission provides services. Accordingly, the Commission apportions its costs related to its electricity transmission to the AESO and a Commission administration fee. The 2015 recorded cost of the AESO's share of Commission costs was $12.5 million, which is $1.5 million (or 10.8%) lower than the 2015 approved forecast of $14.0 million due to a decrease in charges from the Commission compared to the 2014 actual charges of $13.4 million on which the forecast was based.

120 The 2015 recorded WECC cost did not vary significantly from the 2015 approved forecast.

3.1.4 General and Administrative Costs

121 The 2015 recorded general and administrative cost was $83.7 million, which is $0.6 million (or 0.8%) lower than the 2015 approved forecast of $84.3 million. This variance was primarily due to lower costs for contract services and consultants, administration, facilities, and amortization, offset by higher costs for staff and benefits, computer and telecomm services and maintenance.

Line 42 Contract Services and Consultants

122 The 2015 recorded cost of contract services and consultants was $4.9 million, which is $2.6 million (or 34.8%) lower than the 2015 approved forecast of $7.6 million due to changes in scope, timing or advancement of projects. The most notable transmission projects with recorded costs less than forecast are the Fort McMurray West and East 500kV Transmission Projects due to changes in timing and requirement for external technical resources.

123 The 2015 recorded costs for the remainder of the general and administrative components did not vary significantly from the 2015 approved forecast.

3.1.5 Capital

124 Capital investment is required by the AESO for the development of information technology systems necessary to support the transmission function, for its System Coordination Centre ("SCC") facility and infrastructure, and for leasehold improvements, furniture, and equipment. In particular, the development and acquisition of intangible and capital assets, including significant investment in information technology systems, is a key component of the AESO's business operations. Capital costs recorded in 2015 were $17.1 million for the AESO's transmission function.

125 Total capital cost recorded in 2015 was $28.6 million, which is $0.4 million (or 1.4%) lower than the 2015 approved forecast of $29.0 million as provided in Table 3-2 below. While costs related to key capital initiatives were higher than forecast, the overall decrease resulted from recorded costs for life cycle funding and the Energy Management System ("EMS") 3.0 upgrade implementation phase being lower than forecast.

126 Although retaining its total capital budget, the AESO's portfolio prioritization process can result in project changes during a year. Some projects may be deferred into a future year while others may be advanced into the current year as more detailed understanding of requirements, priorities, and interdependencies is gained as a project progresses.

127 The 2015 recorded cost for key capital initiatives was $10.2 million, which is $3.1 million (or 43.7%) higher than the 2015 approved forecast primarily due to:

- work associated with the design phase for the upgrade to the AESO's EMS, including confirmation of business requirements and extended vendor negotiations; the design phase was a component of key capital initiatives and was completed prior to the implementation phase of the EMS project; and
- project scope and testing efforts related to market evolution initiatives for TCR.

128 The 2015 recorded cost for life cycle funding was $3.1 million, which is $2.5 million (or 44.6%) lower than the 2015 approved forecast primarily due to the re-prioritization and deferral of components of the life cycle funding program to offset cost increases related to key capital initiatives. Short-term actions were taken to mitigate the risks related any postponements.

129 The 2015 recorded cost for the EMS 3.0 upgrade implementation phase was $7.3 million, which is $0.9 million (or 11.0%) lower than the 2015 approved forecast due to the timing of a number of planned expenditures for this multi-year program.

Table 3-2 2015 Forecast and Recorded Total Capital Costs, $ 000 000

Line No.		Approved Forecast	Recorded Costs	Variance Over (Under) $	Variance Over (Under) %
		(a)	(b)	(c)=(b)-(a)	(d)=(c)÷(a)
	CAPITAL				
1	Key Capital Initiatives	$7.1	$10.2	$3.1	43.7%
2	Other Capital Initiatives	3.3	3.5	0.2	6.1%
3	Life Cycle Funding	5.6	3.1	(2.5)	(44.6%)
4	**Total General Capital**	**16.0**	**16.7**	**0.7**	**4.4%**
5	MSR Phase III	4.9	4.6	(0.3)	(6.1%)
6	EMS 3.0 Upgrade Implementation Phase	8.2	7.3	(0.9)	(11.0%)
7	**Total Capital**	**$29.0**	**$28.6**	**($0.4)**	**(1.4%)**

Note: Numbers may not add due to rounding.

130 At the end of 2015, capital projects were allocated among AESO business functions on a project-by-project basis, resulting in 60% of the total recorded capital being allocated to transmission.

3.2 2015 Revenue Variances

131 Table 3-3 presents AESO revenue forecast to be collected from Rate DTS and Rate FTS base rates in effect during 2015. The table also includes recorded revenue as collected through 2015 base rates, as well as variances between forecast and recorded base rate revenue in both dollar amounts and as a percentage of forecast revenue.

132 Base rates exclude Rider C, which collects or refunds revenue during the year to align actual revenue with actual costs by rate and rate component. The AESO does not forecast Rider C amounts as part of its ISO tariff applications, and Rider C is therefore not included in this discussion of variances from forecast.

133 Base rate revenue also excludes tariff revenue offsets, consistent with the determination of base rate amounts in ISO tariff applications and ISO tariff updates approved by the Commission.

134 The base rates which were in effect during the period January 1, 2015 to June 30, 2015 were approved at the conclusion of the proceeding on the 2013 ISO tariff update on an interim basis in Commission Decision 2013-325 issued on August 28, 2013 and on a final basis in Commission Decision 2014-242 issued on August 21, 2014. Those rates were based on the AESO's 2013 revenue requirement and 2013 forecast billing determinants for January 1 to December 31, 2013.

135 The base rates which were in effect during the period July 1, 2015 to December 31, 2015 were approved at the conclusion of the proceeding on the 2014 ISO tariff in Commission Decision 3473-D01-2015 (Errata) issued on June 17, 2015. Those rates were based on the AESO's 2014 revenue requirement and 2014 forecast billing determinants for January 1 to December 31, 2014.

Table 3-3 2015 Base Rate Revenue Variances, $ 000 000

Line No.		Forecast Base Rate Revenue	Recorded Base Rate Revenue	Variance Over (Under) $	Variance Over (Under) %
		(a)	(b)	(c)=(b)-(a)	(d)=(c)÷(a)
	Demand Transmission Service				
1	Connection	$1,424.4	$1,412.8	($11.6)	(0.8%)
2	Operating Reserve	148.2	144.1	(4.1)	(2.7%)
3	Transmission Constraint Rebalancing	-	-	-	-
4	Voltage Control	0.9	0.9	(0.0)	(0.8%)
5	Other System Support Services	2.4	2.9	0.5	20.1%
6	**Total Base Rate Revenue**	**$1,575.9**	**$1,560.7**	**($15.2)**	**(1.0%)**

Note: Numbers may not add due to rounding.

136 To calculate the 2015 forecast base rate revenue presented in Table 3-3, the AESO applied the rates in effect during 2015 to its corresponding forecast of billing determinants for 2015. Those billing determinants were based on the 2015 demand forecast in the AESO's *2014 Long-term Outlook,* which was the AESO's long-term demand forecast prepared in accordance with the AESO's duties under the Act and the *Transmission Regulation*. The *2014 Long-term Outlook* is available on the AESO website at www.aeso.ca by following the path Transmission ► Forecasting.

137 On an annual basis, base rate revenue depends on approved transmission tariff rates, operating reserve costs, TCR events, and billed volumes of demand and energy. Revenue variances arise due to unanticipated changes from forecasts of billing volumes and operating reserve costs. The 2015 recorded base rate revenue in column (b) of Table 3-3 totaled $1,560.7 million, which is $15.2 million (or 1.0%) lower than the 2015 forecast base rate revenue of $1,575.9 million. The base rate revenue variances for individual Rate DTS components varied from 3% lower than forecast to approximately 20% higher than forecast, as discussed below.

138 The 2015 recorded base rate revenue for connection was $1,412.8 million, which is $11.6 million (or 0.8%) lower than the 2015 forecast base rate revenue of $1,424.4 million. The decrease results from recorded volumes, on average, lower than forecast for 2015. Coincident metered demand volumes were lower than forecast by 1.1% and metered energy volumes were lower than forecast by 2.3%.

139 The 2015 recorded base rate revenue for operating reserve was $144.1 million, which is $4.1 million (or 2.7%) lower than the 2015 forecast base rate revenue of $148.2 million. Operating reserve costs are allocated hourly to market participants under Rate DTS and Rate FTS and discussed in Section 3.1.2 above.

140 The base rate revenue variances for TCR, voltage control and other system support services were insignificant.

3.3 2015 Deferral Account Balance

141 Costs and base rate revenue variances through the year give rise to deferral account balances. The deferral account balances for 2015 are summarized in Table 3-4, and reflect the 2015 recorded costs and revenue provided in Tables 3-1 and 3-3 respectively. Table 3-4 also includes tariff revenue offsets, which increase the amount of revenue that would otherwise need to be collected through Rate DTS and Rate FTS.

142 As noted in Section 1.1 of this application, the AESO's tariff includes the use of deferral accounts, which were incorporated in the ISO tariff through Rider C. The AESO determined Rider C charges and refunds in accordance with the rider's approved purpose to "restore the deferral account balances to zero (0) over the following calendar quarter". The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of the quarter and forecast billing volumes for the quarter. Rider C charges and refunds attributed to 2015 are provided in column (e) of Table 3-4.

Table 3-4 2015 Deferral Account Summary, $ 000 000

Line No.		Recorded Base Rate Revenue	Recorded Tariff Revenue Offsets	Recorded Costs	Over (Under) Collection	Rider C Collected (Refunded)	Net Over (Under) Collection Variance $	Net Over (Under) Collection Variance %
		(a)	(b)	(c)	(d)=(a)+(b)+(c)	(e)	(f)=(d)+(e)	(g)=-(f)÷(c)
1	Connection	$1,412.8	($9.3)	($1,635.8)	($232.3)	$213.9	($18.5)	(1.1%)
2	Operating Reserve	144.1	-	(146.9)	(2.8)	2.8	(0.0)	(0.0%)
3	Trans. Constraint Rebalancing	-	-	-	-	-	-	-
4	Voltage Control	0.9	-	(1.3)	(0.4)	1.6	1.1	87.9%
5	Other System Support Services	2.9	-	(4.7)	(1.8)	1.9	0.1	1.9%
6	**Total**	**$1,560.7**	**($9.3)**	**($1,788.8)**	**($237.4)**	**$220.2**	**($17.2)**	**(1.0%)**

Note: Numbers may not add due to rounding.

143 The recorded revenue collected with respect to 2015 is therefore the sum of base rate revenue as discussed in Section 3.2 above, plus recorded tariff revenue offsets and revenue collected or refunded through Rider C during 2015.

144 The AESO notes that Rider C revenue attributed to a specific year includes amounts collected or refunded during the calendar year. The AESO has prepared this 2015 reconciliation after initial settlement of December 2015 volumes. Any deferral account year-end amounts remaining to be refunded or collected after December 2015 are retained by the AESO for reconciliation in this 2015 deferral account reconciliation application and are not refunded or collected through Rider C during 2016.

145 Rider C collections and refunds for 2015 maintained the annual deferral account balance at a reasonable level of less than ±2% of costs for the connection, operating reserve, TCR, and other system support services rate components. An over collection of $1.1 million (or 87.9%) existed for the voltage control rate component due to lower than anticipated financial settlement of unforeseeable TMR services that were provided in 2015 but will be paid in 2016; financial settlement was anticipated for 2015 and therefore included in the 2015 Rider C collections, resulting in the net over-collection during the year.

4 2014 Financial Results and Deferral Account Balance

146 The AESO's 2014 costs that are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, and the AESO's own administrative costs (which include other industry costs, general and administrative costs, and capital costs). The AESO's 2014 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

147 Variances of recorded costs and revenue from the approved forecasts of costs and revenue were explained in the first reconciliation of the 2014 deferral account (for those transactions included in that first reconciliation). Those variances were approved in Commission Decision 20866-D01-2016 on the AESO's 2013-2014 deferral account reconciliation issued on January 14, 2016. No further discussion of those variances is provided in this application. Only 2014 cost and revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application. These transactions establish the 2014 production month data for second reconciliation purposes in this application.

148 Specifically, the 2014 cost and revenue adjustments which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:

- relate to 2014;
- occurred after the cut-off date of December 31, 2014 for data included in the 2014 first reconciliation; and
- occurred up to December 31, 2015.

4.1 2014 Deferral Account Second Reconciliation

149 The AESO filed a first reconciliation of its 2014 deferral accounts as part of its 2013-2014 deferral account reconciliation application submitted to the Commission on September 24, 2015. That first reconciliation included all relevant costs and revenue that occurred from January 1, 2014, to December 31, 2014 and that related to 2014. The first reconciliation deferral account balance for 2014 was a shortfall of $40.2 million as provided in Table 2-3 in this application. The first reconciliation balance was settled with market participants in January 2016 in accordance with the approval of the AESO's 2013-2014 deferral account reconciliation in Commission Decision 20866-D01-2016, issued on January 14, 2016.

150 The first reconciliation resulted in $1,702.1 million in costs and $1,702.1 million in market participant revenue (including tariff revenue offsets and net Rider C collections and refunds, as well as first reconciliation collections and refunds) being attributed to 2014.

151 The inclusion of additional transactions decreases the 2014 recorded costs to $1,691.0 million and decreases the 2014 recorded total revenue, plus revenue collected or refunded through Rider C and previous deferral account reconciliation amounts, to $1,701.8 million.

4.2 2014 Cost Adjustments after First Reconciliation

152 The AESO's 2014 forecast revenue requirement was approved either by the Commission (for TFOs) or by the AESO Board (for ancillary services and the AESO's own administrative costs), and is provided as column (a) in Table 4-1.

153 The one significant 2014 cost adjustment is a $10.6 million decrease attributed to 2014 wires costs resulting from the accrual estimated by the AESO for ATCO Electric's 2013-2014 transmission deferral account application filing.

154 The 2014 second reconciliation costs were $1,691.0 million, which is $11.2 million (or 0.7%) lower than the first reconciliation costs of $1,702.1 million.

155 Table 4-1 includes the following information for 2014:

- column (a) contains the 2014 forecast costs included in the first reconciliation in the 2013-2014 deferral account application;
- column (b) contains the 2014 recorded costs included in the first reconciliation in the 2013-2014 deferral account application;
- column (c) contains the 2014 recorded costs included in this application;
- column (d) provides the additional amounts attributed to 2014 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the cost adjustments between the first and second reconciliations; and
- column (e) provides the 2014 additional amounts from column (d) as a percentage of the recorded costs from the first reconciliation in column (b).

156 In the first reconciliation for 2014, in the 2013-2014 deferral account reconciliation application, the AESO considered a line item variance to be significant when it exceeded ±$8.0 million, or, if it was smaller than ±$8.0 million, when it was both at least ±$0.8 million and at least ±10% of the approved line item amount.

157 In this second reconciliation for 2014, adjustments are transactions that occurred after the first reconciliation. It seems inappropriate to use the same threshold levels for the adjustment explanations as those used for variance explanations in the first reconciliation. The AESO considers it reasonable to reduce the adjustment explanation thresholds to half of that of the variance explanation established in the first reconciliation, recognizing that costs may have varied from forecast in the first reconciliation and may also vary again due to further adjustments in this second reconciliation.

158 Therefore, in Table 4-1, the AESO considered a line item adjustment to be significant when it exceeded ±$4.0 million, or, if it was smaller than ±$4.0 million, when it was both at least ±$0.4 million and at least ±5% of the first reconciliation recorded costs item amount. Adjustments exceeding these thresholds are shaded in Table 4-1, with explanations provided by line number in the following discussion. Where adjustments were either lower than ±$0.4 million or less than ±5% (except where such adjustments are ±$4.0 million or higher) explanations are not provided, as such adjustments are considered small enough that specific adjustment explanations are not required.

Table 4-1 2014 First and Second Reconciliation Cost Adjustments, $ 000 000

Line No.		Approved Forecast	Recorded Costs 2013-2014 1st DAR [1]	Recorded Costs 2015 2nd DAR [1]	Adjustments Over (Under) $	Adjustments Over (Under) %
		(a)	(b)	(c)	(d)=(c)-(b)	(e)=(d)÷(b)
	WIRES					
	TFO Wires-Related Costs					
1	AltaLink	621.4	631.7	631.6	(0.1)	(0.0%)
2	ATCO Electric	579.0	578.1	567.5	(10.6)	(1.8%)
3	Isolated Generation	(3.3)	(3.7)	(3.7)	-	-
4	Subtotal ATCO Costs	575.6	574.4	563.8	(10.6)	(1.8%)
5	ENMAX Power Corporation	62.6	66.1	65.4	(0.6)	(1.0%)
6	EPCOR Distribution and Transmission	86.7	90.1	90.1	-	-
7	City of Lethbridge	6.1	6.1	6.1	-	-
8	TransAlta Corporation	5.0	5.0	4.9	(0.1)	(2.0%)
9	City of Red Deer	3.9	3.9	3.9	-	-
10	FortisAlberta (Farm Transmission)	4.7	4.7	4.7	-	-
11	**Subtotal TFO Wires-Related Costs**	**1,365.9**	**1,381.9**	**1,370.5**	**(11.4)**	**(0.8%)**
	Other Costs					
12	Invitation to Bid on Credits (IBOC)	1.5	1.5	1.5	-	-
13	Location Based Credit Standing Offer (LBC SO)	4.3	4.1	4.1	-	-
14	**Subtotal IBOC/LBC SO Costs**	**5.8**	**5.6**	**5.6**	**-**	**-**
15	**TOTAL WIRES COSTS**	**1,371.7**	**1,387.6**	**1,376.2**	**(11.4)**	**(0.8%)**
	ANCILLARY SERVICES					
	Operating Reserve					
	Active					
16	Regulating	26.4	41.8	41.8	-	-
17	Spinning	75.3	72.0	72.0	-	-
18	Supplemental	44.2	54.0	54.0	-	-
19	**Subtotal Active Reserve**	**145.9**	**167.8**	**167.8**	**-**	**-**
	Standby					
20	Regulating	11.9	5.2	5.2	-	-
21	Spinning	26.7	8.8	8.8	-	-
22	Supplemental	9.1	2.7	2.7	-	-
23	**Subtotal Standby Reserve**	**47.8**	**16.8**	**16.8**	**-**	**-**
24	Trading Fees & Other Related Charges	-	(3.7)	(3.7)	(0.0)	0.3%
25	**Subtotal Operating Reserve**	**193.7**	**180.9**	**180.9**	**(0.0)**	**(0.0%)**
	Other Ancillary Services					
26	Black Start	2.8	1.0	1.0	-	-
27	Transmission Must-Run (TMR)	-	4.4	4.6	0.2	5.6%
28	Load Shed Service for Imports (LSSi)	25.4	24.4	24.4	-	-
29	**Subtotal Other Ancillary Services**	**28.2**	**29.8**	**30.1**	**0.2**	**0.8%**
	Poplar Hill/ILRAS					
30	Poplar Hill	2.5	2.8	2.8	-	-
31	Interruptible Load Remedial Action Scheme (ILRAS)	-	-	-	-	-
32	Generator Remedial Action Scheme (RAS)	-	-	-	-	-
33	**Subtotal Poplar Hill/ILRAS**	**2.5**	**2.8**	**2.8**	**-**	**-**
34	**TOTAL ANCILLARY SERVICES**	**224.5**	**213.6**	**213.8**	**0.2**	**0.1%**

Table 4-1 2014 First and Second Reconciliation Cost Variances, $ 000 000 (cont'd)

Line No.		Approved Forecast	Recorded Costs 2013-2014 1st DAR [1]	Recorded Costs 2015 2nd DAR [1]	Adjustments Over (Under) $	Adjustments Over (Under) %
		(a)	(b)	(c)	(d)=(c)-(b)	(e)=(d)÷(b)
	OTHER INDUSTRY COSTS					
35	Regulatory Process Costs	1.3	0.9	0.9	-	-
36	Western Electricity Coordinating Council (WECC)	1.3	1.1	1.1	-	-
37	Share of Commission Costs	13.6	13.4	13.4	-	-
38	**TOTAL OTHER INDUSTRY COSTS**	**16.2**	**15.3**	**15.3**	**-**	**-**
	GENERAL AND ADMINISTRATIVE COSTS					
	Administrative Costs					
39	Staff and Benefits	45.8	45.0	45.0	-	-
40	Contract Services and Consultants	10.4	10.3	10.3	-	-
41	Administration	4.2	3.7	3.7	-	-
42	Facilities [2]	4.9	4.6	4.6	-	-
43	Computer and Telecomm Services and Maintenance	5.8	6.1	6.1	-	-
44	**Total Administrative Costs**	**71.1**	**69.7**	**69.7**	**-**	**-**
	General Costs					
45	Market Systems Replacement	0.5	0.9	0.9	-	-
46	Interest	(0.3)	(0.7)	(0.7)	-	-
47	Amortization	16.3	15.8	15.8	-	-
48	**Total General Costs**	**16.5**	**16.0**	**16.0**	**-**	**-**
49	**TOTAL GENERAL & ADMIN COSTS**	**87.6**	**85.7**	**85.7**	**-**	**-**
50	**Total G&A and Other Industry Costs**	**103.7**	**101.0**	**101.0**	**-**	**-**
51	**TOTAL REVENUE REQUIREMENT**	**1,699.9**	**1,702.1**	**1,691.0**	**(11.2)**	**(0.7%)**
52	**TOTAL CAPITAL [3]**	**19.9**	**17.2**	**17.2**	**-**	**-**

Notes: Numbers may not add due to rounding.
Shaded numbers indicate significant variances which are discussed in the text.
[1] DAR means Deferral Account Reconciliation.
[2] Amortization of Rent Free Period not included in 2014 Recorded Costs on Line 42.
[3] The numbers shown represent the AESO's total corporate capital expenditures for 2014 which were not adjusted from the 2013-2014 DAR amounts.

4.2.1 Wires Costs

159 The second reconciliation recorded costs were based on billings by the TFOs and accruals for 2014 up to December 31, 2015, which is the data cut-off date for this application.

Line 2 ATCO Electric

160 The 2014 second reconciliation recorded cost for ATCO Electric wires was $567.5 million, which is $10.6 million (or 1.8%) lower than the first reconciliation recorded cost of $578.1 million.

161 The first reconciliation recorded costs reflected the Commission's Decision 2014-348 on ATCO Electric's TFO tariff application. The second reconciliation recorded costs include a reduction of $10.6 million due to the accrual for 2014 of 72% of the applied-for reduction in ATCO Electric's filing of its 2013-2014 transmission deferral account application.

4.3 2014 Revenue Adjustments after First Reconciliation

162 The AESO's 2014 forecast base rate revenue was discussed in the 2013-2014 deferral account reconciliation application. Base rates exclude tariff revenue offsets and amounts charged or refunded through Rider C. The AESO does not forecast Rider C amounts as part of its ISO tariff applications, and Rider C is therefore not included in this discussion of variances from forecast base rate revenue. Base rate revenue also excludes any amounts collected or refunded through deferral account reconciliation applications.

163 Variances of recorded total revenue from the 2014 forecast base rate revenue were explained in the first reconciliation of the 2014 deferral account (for those transactions included in that first reconciliation). Those variances were approved in Commission Decision 20866-D01-2016 on the AESO's 2013-2014 deferral account reconciliation issued on January 14, 2016. No further discussion of those revenue variances is provided in this application. Only revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

164 However, as discussed in Section 2.1 of this application, tariff revenue offsets are presented as separate amounts in deferral account summaries in this application and are not included in discussion of base rate revenue variances. As a result, the amounts presented as recorded base rate revenue in Table 4-2 will differ from the amounts presented in the 2013-2014 deferral account reconciliation application. The base rate revenue amounts remain unchanged (subject to prior-period adjustments during 2015); only the presentation has been changed to improve clarity between base rate revenue and tariff revenue offsets.

165 The 2014 revenue adjustments were insignificant and net to a base rate revenue decrease of $0.3 million.

166 Table 4-2 accordingly includes the following information for 2014:

- column (a) contains the 2014 forecast base rate revenue included in the first reconciliation in the 2013-2014 deferral account application;
- column (b) contains the 2014 recorded base rate revenue included in the first reconciliation in the 2013-2014 deferral account application;
- column (c) contains the 2014 recorded base rate revenue included in this application;
- column (d) provides the additional base rate revenue amounts attributed to 2014 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the revenue adjustments between the first and second reconciliations; and
- column (e) provides the 2014 additional revenue amounts from column (d) as a percentage of the recorded revenue from the first reconciliation in column (b).

167 The 2014 second reconciliation recorded base rate revenue is $1,486.2 million, which is $0.3 million (or 0.02%) lower than the first reconciliation recorded base rate revenue of $1,486.5 million.

Table 4-2 2014 First and Second Reconciliation Base Rate Revenue Adjustments, $ 000 000

Line No.		Forecast Base Rate Revenue	Recorded Base Rate Revenue 2013-2014 1st DAR [1]	Recorded Base Rate Revenue 2015 2nd DAR [1]	Adjustments Over (Under) $	Adjustments Over (Under) %
		(a)	(b)	(c)	(d)=(c)-(b)	(e)=(d)÷(b)
	Demand Transmission Service					
1	Connection	$1,297.7	$1,301.9	$1,301.7	($0.2)	(0.0%)
2	Operating Reserve	222.0	180.1	180.0	(0.1)	(0.1%)
3	Voltage Control	1.8	1.8	1.8	-	-
4	Other System Support Services	2.3	2.7	2.7	(0.0)	(0.1%)
5	**Total Base Rate Revenue**	**$1,523.7**	**$1,486.5**	**$1,486.2**	**($0.3)**	**(0.0%)**

Notes: Numbers may not add due to rounding.
[1] DAR means Deferral Account Reconciliation.

4.4 2014 Second Reconciliation Deferral Account Balance

168 Costs and base rate revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2014 second reconciliation are summarized in Table 4-3, and reflect the 2014 second reconciliation of costs and revenue provided in Tables 4-1 and 4-2 respectively. Table 4-3 also includes tariff revenue offsets, which increase the amount of revenue that would otherwise need to be collected through Rate DTS and Rate FTS.

169 As noted in Section 1.1 of this application, the AESO's tariff includes the use of deferral accounts, which were incorporated in the ISO tariff that was in effect during 2014 through Rider C. The AESO determined Rider C charges and refunds in accordance with the rider's approved purpose to "restore the deferral account balances to zero (0) over the following calendar quarter". The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of that quarter and forecast billing volumes for that quarter. Rider C charges and refunds attributed to 2014 are provided in column (e) of Table 4-3.

170 The first reconciliation of the 2014 deferral account in the AESO's 2013-2014 deferral account reconciliation application resulted in a $40.2 million shortfall attributed to 2014, as illustrated in Table 2-3 in Section 2.3 of this application. The first reconciliation shortfall was collected from market participants in the settlement in January 2016 of the AESO's 2013-2014 deferral account balances, which was approved on a final basis by the Commission. First reconciliation settlement amounts attributed to 2014 are provided in column (f) of Table 4-3, and restored all 2014 deferral account balances to zero based on the transactions included in the 2014 first reconciliation.

171 However, this second reconciliation includes adjustments to costs and revenue that occurred after the first reconciliation of the 2014 deferral account, as discussed in Sections 4.2 and 4.3 where explanations were provided when the resulting line item adjustments were significant.

172 The deferral account balance for connection has increased to an over collection of $11.2 million (or 0.7% of recorded costs), primarily due to adjustments for TFO wires costs in 2014 as discussed above in Section 4.2.1.

Table 4-3 2014 Deferral Account Summary, $ 000 000

Line No.		Recorded Base Rate Revenue	Recorded Tariff Revenue Offsets	Recorded Costs	Over (Under) Collection	Prior Deferral Account Collections (Refunds)		Net Over (Under) Collection Adjustment	
						Rider C	*1st DAR [1]*	*$*	*%*
		(a)	(b)	(c)	(d)=(a)+(b)+(c)	(e)	(f)	(g)=Σ(d):(f)	(h)=-(g)÷(c)
1	Connection	$1,301.7	($10.1)	($1,501.6)	($210.0)	$175.3	$45.9	$11.2	0.7%
2	Operating Reserve	180.0	-	(181.9)	(1.9)	1.6	0.2	(0.1)	(0.0%)
3	Voltage Control	1.8	-	(4.6)	(2.9)	8.6	(6.0)	(0.2)	(5.3%)
4	Other System Support Services	2.7	-	(2.8)	(0.1)	(0.0)	0.1	(0.0)	(0.2%)
5	**Total**	**$1,486.2**	**($10.1)**	**($1,691.0)**	**($214.9)**	**$185.5**	**$40.2**	**$10.8**	**0.6%**

Notes: Numbers may not add due to rounding.
[1] DAR means Deferral Account reconciliation

173 Deferral account balances for operating reserve, voltage control and other system support services charges have not changed significantly from the first reconciliation.

174 The impact of all 2014 cost and revenue adjustments is a deferral account net balance increase to an over collection of $10.8 million (or 0.6% of recorded costs), compared to the zero balance that existed after settlement of amounts included in the first reconciliation.

5 2013 Financial Results and Deferral Account Balance

175 The AESO's 2013 costs that are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, and the AESO's own administrative costs (which include other industry costs, general and administrative costs, and capital costs). The AESO's 2013 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

176 Variances of recorded costs and revenue from the approved forecasts of costs and revenue were explained in the first reconciliation of the 2013 deferral account (for those transactions included in that first reconciliation). Those variances were approved in Commission Decision 20866-D01-2016 on the AESO's 2013-2014 deferral account reconciliation issued on January 14, 2016. No further discussion of those variances is provided in this application. Only 2013 cost and revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application. These transactions establish the 2013 production month data for second reconciliation purposes in this application.

177 Specifically, the 2013 cost and revenue adjustments which occurred after the first deferral account reconciliation and which are included in this second reconciliation are those transactions that:

- relate to 2013;
- occurred after the cut-off date of December 31, 2014 for data included in the 2013 first reconciliation; and
- occurred up to December 31, 2015.

5.1 2013 Deferral Account Second Reconciliation

178 The AESO filed a first reconciliation of its 2013 deferral accounts as part of its 2013-2014 deferral account reconciliation application submitted to the Commission on September 24, 2015. That first reconciliation included all relevant costs and revenue that occurred from January 1, 2013, to December 31, 2014 and that related to 2013. The first reconciliation deferral account balance for 2013 was a surplus of $18.0 million as provided in Table 2-3 in this application. The first reconciliation balance was settled with market participants in January 2016 in accordance with the approval of the AESO's 2013-2014 deferral account reconciliation application in Commission Decision 20866-D01-2016, issued on January 14, 2016.

179 The first reconciliation resulted in $1,621.8 million in costs and $1,621.8 million in market participant revenue (including tariff revenue offsets and net Rider C collections and refunds as well as first reconciliation collections and refunds) being attributed to 2013.

180 The inclusion of additional transactions decreases the 2013 recorded costs to $1,609.5 million and decreases the 2013 recorded total revenue, plus revenue collected or refunded through Rider C and previous deferral account reconciliation amounts, to $1,621.7 million.

5.2 2013 Cost Adjustments after First Reconciliation

181 The AESO's 2013 forecast revenue requirement was approved either by the Commission (for TFOs) or by the AESO Board (for ancillary services and the AESO's own administrative costs), and is provided as column (a) in Table 5-1.

182 The one significant 2013 cost adjustment was a $10.6 million decrease attributed to 2013 wires costs resulting from the accrual estimated by the AESO for ATCO Electric's 2013-2014 transmission deferral account application filing.

183 The 2013 second reconciliation costs were $1,609.5 million, which is $12.3 million (or 0.8%) lower than the first reconciliation costs of $1,621.8 million.

184 Table 5-1 includes the following information for 2013:

- column (a) contains the 2013 forecast costs included in the first reconciliation in the 2013-2014 deferral account application;
- column (b) contains the 2013 recorded costs included in the first reconciliation in the 2013-2014 deferral account application;
- column (c) contains the 2013 recorded costs included in this application;
- column (d) provides the additional amounts attributed to 2013 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the cost adjustments between the first and second reconciliations; and
- column (e) provides the 2013 additional amounts from column (d) as a percentage of the recorded costs from the first reconciliation in column (b).

185 In the first reconciliation for 2013, in the 2013-2014 deferral account reconciliation application, the AESO considered a line item variance to be significant when it exceeded ±$8.0 million, or, if it was smaller than ±$8.0 million, when it was both at least ±$0.8 million and at least ±10% of the approved line item amount.

186 In this second reconciliation for 2013, adjustments are transactions that occurred after the first reconciliation. It seems inappropriate to use the same threshold levels for the adjustment explanations as those used for variance explanations in the first reconciliation. The AESO considers it reasonable to reduce the adjustment explanation thresholds to half of that of the variance explanation established in the first reconciliation, recognizing that costs may have varied from forecast in the first reconciliation and may also vary again due to further adjustments in this second reconciliation.

187 Therefore, in Table 5-1, the AESO considered a line item adjustment to be significant when it exceeded ±$4.0 million, or, if it was smaller than ±$4.0 million, when it was both at least ±$0.4 million and at least ±5% of the first reconciliation recorded costs item amount. Adjustments exceeding these thresholds are shaded in Table 5-1, with explanations provided by line number in the following discussion. Where adjustments were either lower than ±$0.4 million or less than ±5% (except where such adjustments are ±$4.0 million or higher) explanations are not provided, as such adjustments are considered small enough that specific adjustment explanations are not required.

Table 5-1 2013 First and Second Reconciliation Cost Adjustments, $ 000 000

Line No.		Approved Forecast	Recorded Costs 2013-2014 1st DAR [1]	Recorded Costs 2015 2nd DAR [1]	Adjustments Over (Under) $	Adjustments Over (Under) %
		(a)	(b)	(c)	(d)=(c)-(b)	(e)=(d)÷(b)
	WIRES					
	TFO Wires-Related Costs					
1	AltaLink	469.0	492.7	490.9	(1.8)	(0.4%)
2	ATCO Electric	512.0	483.5	472.9	(10.6)	(2.2%)
3	Isolated Generation	(4.1)	(5.8)	(5.8)	-	-
4	Subtotal ATCO Costs	507.9	477.7	467.1	(10.6)	(2.2%)
5	ENMAX Power Corporation	46.8	54.4	54.4	-	-
6	EPCOR Distribution & Transmission	65.4	75.3	75.3	-	-
7	City of Lethbridge	6.0	5.9	5.9	-	-
8	TransAlta Corporation	4.1	4.5	4.4	(0.0)	(0.6%)
9	City of Red Deer	3.4	3.4	3.4	-	-
10	FortisAlberta (Farm Transmission)	4.6	4.6	4.6	-	-
11	**Subtotal TFO Wires-Related Costs**	**1,107.1**	**1,118.5**	**1,106.1**	**(12.4)**	**(1.1%)**
	Other Costs					
12	Invitation to Bid on Credits (IBOC)	1.5	1.3	1.3	-	-
13	Location Based Credit Standing Offer (LBC SO)	4.8	4.0	4.0	-	-
14	**Subtotal IBOC/LBC SO Costs**	**6.3**	**5.3**	**5.3**	**-**	**-**
15	**TOTAL WIRES COSTS**	**1,113.4**	**1,123.8**	**1,111.5**	**(12.4)**	**(1.1%)**
	ANCILLARY SERVICES					
	Operating Reserve					
	Active					
16	Regulating	43.8	72.1	72.1	-	-
17	Spinning	65.4	137.6	137.6	-	-
18	Supplemental	46.4	131.3	131.3	-	-
19	**Subtotal Active Reserve**	**155.7**	**340.9**	**340.9**	**-**	**-**
	Standby					
20	Regulating	7.6	9.4	9.4	-	-
21	Spinning	13.3	14.9	14.9	-	-
22	Supplemental	4.6	4.3	4.3	-	-
23	**Subtotal Standby Reserve**	**25.5**	**28.6**	**28.6**	**-**	**-**
24	Trading Fees & Other Related Charges	-	(7.3)	(7.3)	-	-
25	**Subtotal Operating Reserve**	**181.2**	**362.2**	**362.2**	**-**	**-**
	Other Ancillary Services					
26	Black Start	5.0	1.0	1.0	-	-
27	Transmission Must-Run (TMR)	2.0	11.2	11.4	0.1	1.1%
28	Load Shed Service for Imports (LSSi)	68.7	21.2	21.2	-	-
29	**Subtotal Other Ancillary Services**	**75.7**	**33.4**	**33.6**	**0.1**	**0.4%**
	Poplar Hill/ILRAS					
30	Poplar Hill	2.3	2.5	2.5	-	-
31	Interruptible Load Remedial Action Scheme (ILRAS)	-	-	-	-	-
32	Generator Remedial Action Scheme (RAS)	-	-	-	-	-
33	**Subtotal Poplar Hill/ILRAS**	**2.3**	**2.5**	**2.5**	**-**	**-**
34	**TOTAL ANCILLARY SERVICES**	**259.2**	**398.2**	**398.3**	**0.1**	**0.0%**

Table 5-1 2013 First and Second Reconciliation Cost Adjustments, $ 000 000 (cont'd)

Line No.		Approved Forecast	Recorded Costs 2013-2014 1st DAR [1]	Recorded Costs 2015 2nd DAR [1]	Adjustments Over (Under) $	Adjustments Over (Under) %
		(a)	(b)	(c)	(d)=(c)-(b)	(e)=(d)÷(b)
	OTHER INDUSTRY COSTS					
35	Regulatory Process Costs	1.0	1.0	1.0	-	-
36	Western Electricity Coordinating Council (WECC)	2.9	2.8	2.8	-	-
37	Share of Commission Costs	12.9	13.2	13.2	-	-
38	**TOTAL OTHER INDUSTRY COSTS**	**16.8**	**17.0**	**17.0**	**-**	**-**
	GENERAL AND ADMINISTRATIVE COSTS					
	Administrative Costs					
39	Staff and Benefits	45.2	43.7	43.7	-	-
40	Contract Services and Consultants	11.1	11.5	11.5	-	-
41	Administration	4.4	3.7	3.7	-	-
42	Facilities [2]	5.0	4.9	4.9	-	-
43	Computer and Telecomm Services and Maintenance	7.0	6.1	6.1	-	-
44	**Total Administrative Costs**	**72.7**	**69.8**	**69.8**	**-**	**-**
	General Costs					
45	Interest	0.9	(0.5)	(0.5)	-	-
46	Amortization	12.9	13.4	13.4	-	-
47	**Total General Costs**	**13.7**	**12.9**	**12.9**	**-**	**-**
48	**TOTAL GENERAL & ADMIN COSTS**	**86.5**	**82.7**	**82.7**	**-**	**-**
49	**Total G&A and Other Industry Costs**	**103.2**	**99.7**	**99.7**	**-**	**-**
50	**TOTAL REVENUE REQUIREMENT**	**1,475.8**	**1,621.8**	**1,609.5**	**(12.3)**	**(0.8%)**
51	**TOTAL CAPITAL [3]**	**27.0**	**22.0**	**22.0**	**-**	**-**

Notes: Numbers may not add due to rounding.
Shaded numbers indicate significant variances which are discussed in the text.
[1] DAR means Deferral Account Reconciliation.
[2] Amortization of Rent Free Period not included in 2013 Recorded Costs on Line 42.
[3] The numbers shown represent the AESO's total corporate capital expenditures for 2013 and were not adjusted from the 2013-2014 DAR amounts.

5.2.1 Wires Costs

188 The second reconciliation recorded costs were based on billings by the TFOs and accruals for 2013 up to December 31, 2015, which is the data cut-off date for this application

Line 2 ATCO Electric

189 The 2013 second reconciliation recorded cost for ATCO Electric wires was $472.9 million, which is $10.6 million (or 2.2%) lower than the first reconciliation recorded cost of $483.5 million.

190 The first reconciliation recorded costs reflected:

- ATCO Electric's approval of 2013 facility owner tariff costs;
- ATCO Electric's 2012 transmission deferral account (reconciliation) refiling refund of $0.7 million for 2013; and
- in addition, a refund of $0.3 million for 2013 approved in Commission Decision 2014-167 on ATCO Electric's 2011 transmission deferral account reconciliation, which was included in ATCO Electric's 2013-2014 transmission general tariff application compliance filing.

191 The second reconciliation recorded costs include a reduction of $10.6 million due to the accrual for 2013 of 72% of the applied-for reduction in ATCO Electric's filing of its 2013-2014 transmission deferral account application.

5.3 2013 Revenue Adjustments after First Reconciliation

192 The AESO's 2013 forecast base rate revenue was discussed in the 2013-2014 deferral account reconciliation application. Base rates exclude tariff revenue offsets and amounts charge or refunded through Rider C. The AESO does not forecast Rider C amounts as part of its ISO tariff applications, and Rider C is therefore not included in this discussion of variances from forecast. Base rate revenue also excludes any amounts collected or refunded through deferral account reconciliation applications.

193 Variances of recorded total revenue from the 2013 forecast base rate revenue were explained in the first reconciliation of the 2013 deferral account (for those transactions included in that first reconciliation). Those variances were approved in Commission Decision 20866-D01-2016 on the AESO's 2013-2014 deferral account reconciliation issued on January 14, 2016. No further discussion of those revenue variances is provided in this application. Only revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application.

194 However, as discussed in Section 2.1 of this application, tariff revenue offsets are presented as separate amounts in deferral account summaries in this application and are not included in discussion of base rate revenue variances. As a result, the amounts presented as recorded base rate revenue in Table 5-2 will differ from the amounts presented in the 2013-2014 deferral account reconciliation application. The base rate revenue amounts remain unchanged (subject to prior-period adjustments during 2015); only the presentation has been changed to improve clarity between base rate revenue and tariff revenue offsets.

195 The 2013 revenue adjustments were insignificant and net to a base rate revenue decrease of $0.1 million.

196 Table 5-2 accordingly includes the following information for 2013:

- column (a) contains the 2013 forecast base rate revenue included in the first reconciliation in the 2013-2014 deferral account application;
- column (b) contains the 2013 recorded base rate revenue included in the first reconciliation in the 2013-2014 deferral account application;
- column (c) contains the 2013 recorded base rate revenue included in this application;
- column (d) provides the additional base rate revenue amounts attributed to 2013 which occurred after the cut-off date for transactions included in the first reconciliation — that is, the revenue adjustments between the first and second reconciliations; and
- column (e) provides the 2013 additional revenue amounts from column (d) as a percentage of the recorded revenue from the first reconciliation in column (b).

197 The 2013 second reconciliation recorded base rate revenue is $1,394.6 million, which is $0.1 million (or 0.005%) lower than the first reconciliation recorded base rate revenue of $1,394.7 million.

Table 5-2 2013 First and Second Reconciliation Base Rate Revenue Adjustments, $ 000 000

Line No.		Forecast Base Rate Revenue	Recorded Base Rate Revenue 2013-2014 1st DAR [1]	Recorded Base Rate Revenue 2015 2nd DAR [1]	Adjustments Over (Under) $	Adjustments Over (Under) %
		(a)	(b)	(c)	(d)=(c)-(b)	(e)=(d)÷(b)
	Demand Transmission Service					
1	Connection	$1,027.1	$1,005.8	$1,005.7	($0.1)	(0.0%)
2	Operating Reserve	186.2	361.5	361.5	(0.0)	(0.0%)
3	Voltage Control	23.0	21.9	21.9	-	-
4	Other System Support Services	5.3	5.6	5.6	(0.0)	(0.1%)
5	**Total Base Rate Revenue**	**$1,241.5**	**$1,394.7**	**$1,394.6**	**($0.1)**	**(0.0%)**

Notes: Numbers may not add due to rounding.
[1] DAR means Deferral Account Reconciliation.

5.4 2013 Second Reconciliation Deferral Account Balance

198 Costs and base rate revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2013 second reconciliation are summarized in Table 5-3, and reflect the 2013 second reconciliation costs and revenue provided in Tables 5-1 and 5-2 respectively. Table 5-3 also includes tariff revenue offsets, which increase the amount of revenue that would otherwise need to be collected through Rate DTS and Rate FTS.

199 As noted in Section 1.1 of this application, the AESO's tariff includes the use of deferral accounts, which were incorporated in the ISO tariff that was in effect during 2013 through Rider C. The AESO determined Rider C charges and refunds in accordance with the rider's approved purpose to "restore the deferral account balances to zero (0) over the following calendar quarter". The AESO sets Rider C rates each quarter based on estimates of deferral account balances at the end of that quarter and forecast billing volumes for that quarter. Rider C charges and refunds attributed to 2013 are provided in column (e) of Table 5-3.

200 The first reconciliation of the 2013 deferral account in the AESO's 2013-2014 deferral account reconciliation application resulted in an $18.0 million surplus attributed to 2013, as illustrated in Table 2-3 in Section 2.3 of this application. The first reconciliation surplus was refunded to market participants in the settlement in January 2016 of the AESO's 2013-2014 deferral account balances, which was approved on a final basis by the Commission. First reconciliation settlement amounts attributed to 2013 are provided in column (f) of Table 5-3, and restored all 2013 deferral account balances to zero based on the transactions included in the 2013 first reconciliation.

201 However, this second reconciliation includes adjustments to costs and revenue that occurred after the first reconciliation of the 2013 deferral account, as discussed in Sections 5.2 and 5.3 where explanations were provided when the resulting line item adjustments were significant.

202 The deferral account balance for connection has increased to an over collection of $12.3 million (or 1.0% of recorded costs), primarily due to adjustments for TFO wires costs in 2013 as discussed above in Section 5.2.1.

Table 5-3 2013 Deferral Account Summary, $ 000 000

Line No.		Recorded Base Rate Revenue	Recorded Tariff Revenue Offsets	Recorded Costs	Over (Under) Collection	Prior Deferral Account Collections (Refunds)		Net Over (Under) Collection Adjustment	
						Rider C	1st DAR [1]	$	%
		(a)	(b)	(c)	(d)=(a)+(b)+(c)	(e)	(f)	(g)=Σ(d):(f)	(h)=-(g)÷(c)
1	Connection	$1,005.7	($2.8)	($1,216.0)	($213.1)	$209.0	$16.4	$12.3	1.0%
2	Operating Reserve	361.5	-	(363.2)	(1.8)	1.0	0.8	(0.0)	(0.0%)
3	Voltage Control	21.9	-	(11.4)	10.5	6.0	(16.7)	(0.1)	(1.1%)
4	Other System Support Services	5.6	-	(19.0)	(13.4)	31.9	(18.5)	(0.0)	(0.0%)
5	**Total**	**$1,394.6**	**($2.8)**	**($1,609.5)**	**($217.7)**	**$247.9**	**($18.0)**	**$12.2**	**0.8%**

Notes: Numbers may not add due to rounding.
[1] DAR means Deferral Account Reconciliation

203 Deferral account balances for operating reserve, voltage control and other system support services charges have not changed significantly from the first reconciliation.

204 The impact of all 2013 cost and revenue adjustments is a deferral account net balance increase to an over collection of $12.2 million (or 0.8% of recorded costs), compared to the zero balance that existed after settlement of amounts included in the first reconciliation.

6 2012, 2011 and 2010 Financial Results and Deferral Account Balances

205 The AESO's 2012, 2011 and 2010 costs that are subject to retrospective deferral account reconciliation in this application are those related to wires, ancillary services, and the AESO's own administrative costs (which include other industry costs, general and administrative costs, and capital costs). The AESO's 2012, 2011 and 2010 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

206 The costs and revenue discussed in this section reflect the third deferral account reconciliation for 2012 and the fourth reconciliations for 2011 and 2010. The adjustments to previous deferral account balances for these years are accordingly smaller and fewer in number, and are summarized in this section for efficiency of presentation. The deferral account reconciliation for each year is provided in greater detail in Appendices E, G and H of this application.

207 The most recent deferral account reconciliation for 2012, 2011 and 2010 were presented in the AESO's 2013-2014 deferral account reconciliation application, and included the second reconciliation for 2012 and the third reconciliations for 2011 and 2010. The reconciliations included all cost and revenue transactions that occurred to December 31, 2014 and that related to 2012, 2011, or 2010. The reconciliations resulted in a surplus balance of $0.5 million for 2012, a surplus balance of $9.1 million for 2011 and a surplus balance of $12.4 million for 2010 as provided in Table 2-3 in this application, which were settled with the market participants in January 2016 in accordance with the approval of the AESO's 2013-2014 deferral account reconciliation application in Commission Decision 20866-D01-2016, issued on January 14, 2016.

208 In this 2015 deferral account reconciliation application, the third reconciliation for 2012 and the fourth reconciliations for 2011 and 2010 include all cost and revenue transactions that occurred up to December 31, 2015 and that relate to 2012, 2011, or 2010. These transactions establish the production month data for each of those years for deferral account reconciliation purposes in this application.

209 The impact of the inclusion of these additional transactions is summarized in Table 6-1 below.

210 The AESO's 2012, 2011, and 2010 revenue requirements were approved either by the Commission (for TFOs) or by the AESO Board (for ancillary services and the AESO's own administrative costs). Variances of recorded costs from approved forecast were explained in prior reconciliations of the 2012, 2011, and 2010 deferral accounts. Variances explained in prior reconciliations were approved in:

- Commission Decision 20866-D01-2016 on the AESO's 2013-2014 deferral account reconciliation issued on January 14, 2016;
- Commission Decision 2014-034 on the AESO's 2012 deferral account reconciliation issued on February 13, 2014; and
- Commission Decision 2013-034 on the AESO's 2010-2011 deferral account reconciliation issued on February 7, 2013.

211 No further discussion of those variances is provided in this application. Only 2012, 2011, and 2010 cost adjustments which arise from transactions that occurred after the most recent prior reconciliation are discussed in this application.

212 Specifically, the 2012, 2011 and 2010 cost and revenue adjustments which occurred after the prior deferral account reconciliations and which are included in this reconciliation are those transactions that:

- relate to 2012, 2011 or 2010;
- occurred after the cut-off date of December 31, 2014 for data included in the previous reconciliation; and
- occurred up to December 31, 2015.

213 The 2012, 2011 and 2010 cost adjustments included in this deferral account reconciliation are summarized in Table 6-1 below. These adjustments result in a surplus balance of $4.5 million for 2012, a shortfall balance of $4.7 million for 2011 and a surplus balance of $1.0 million for 2010 as provided in Table 2-4 in this application. The overall balance resulting from the 2012, 2011 and 2010 cost adjustments is a surplus of $0.9 million.

214 Two significant cost adjustments occurred during this period:

- $4.9 million decrease attributed to 2012 wires costs; and
- $4.7 million increase attributed to 2011 wires costs.

215 Both of these wires cost adjustments resulted from Commission Decision 20580-D01-2015 on ATCO Electric's 2012 transmission deferral account application on a final basis and from ATCO Electric's 2013-2014 transmission deferral account application.

216 There have been no adjustments to capital expenditures for 2012, 2011 and 2010 since the previous reconciliations of these years.

217 Table 6-1 also includes revenue for 2012, 2011 and 2010 included in this deferral account reconciliation. There have been no adjustments to revenue since those included in the previous reconciliations of these years.

218 However, as discussed in Section 2.1 of this application, tariff revenue offsets are presented as separate amounts in deferral account summaries in this application and are not included with base rate revenue as had been done in prior deferral account reconciliation applications. As a result, the amounts presented as recorded base rate revenue in Table 6-1 will differ from the amounts presented in the 2013-2014 deferral account reconciliation application. The base rate revenue amounts remain unchanged; only the presentation has been changed to improve clarity between base rate revenue and tariff revenue offsets.

219 During the multi-year reconciliation process, it seems inappropriate to use the same threshold levels for explanations for adjustments as subsequent reconciliations occur and the AESO considers it reasonable to reduce the adjustment explanation thresholds in these circumstances. For the third reconciliation for 2012, the adjustment explanation threshold is ±$2.6 million and ±3%. For the fourth reconciliation for 2010 and 2011, the adjustment explanation threshold is ±$1.7 million and ±2%.

Table 6-1 2012, 2011 and 2010 Reconciliation Adjustments, $ 000 000

Line No.		Production Year 2012	2011	2010
	RECORDED COSTS			
	Total Wires Costs			
1	2013-2014 DAR [1] Costs	920.8	771.3	631.2
2	ATCO Electric's 2013-2014 DA Application	(2.6)	0.8	-
3	ATCO Electric's 2012 DA Approval	(2.3)	3.9	(1.0)
4	Other Adjustments Increase (Decrease)	0.2	(0.0)	0.0
5	2015 DAR Costs	916.0	776.0	630.2
	Total Ancillary Services			
6	2013-2014 DAR Costs	374.9	367.4	174.2
7	Adjustments Increase (Decrease)	0.2	-	-
8	2015 DAR Costs	375.1	367.4	174.2
	Total Other Industry Costs			
9	2013-2014 DAR Costs	18.6	15.5	15.1
10	Adjustments Increase (Decrease)	-	-	-
11	2015 DAR Costs	18.6	15.5	15.1
	Total General and Administrative Costs			
12	2013-2014 DAR Costs	81.5	76.8	60.7
13	Adjustments Increase (Decrease)	-	-	-
14	2015 DAR Costs	81.5	76.8	60.7
	TOTAL REVENUE REQUIREMENT			
15	2013-2014 DAR Costs	1,395.7	1,231.1	881.2
16	Adjustments Increase (Decrease)	(4.5)	4.7	(1.0)
17	2015 DAR Costs	1,391.2	1,235.7	880.2
	BASE RATE REVENUE – Demand Transmission Service per 2015 DAR [2]			
18	Connection	886.9	736.1	580.7
19	Operating Reserve	320.1	286.7	136.3
20	Voltage Control	28.5	32.0	35.0
21	Other System Support Services	6.5	6.8	6.8
22	**TOTAL BASE RATE REVENUE**	1,241.9	1,061.7	758.8
23	**TARIFF REVENUE OFFSETS**	1.4	7.6	13.3
	DEFERRAL ACCOUNT			
24	(Shortfall) Surplus	(147.9)	(166.5)	(108.1)
25	Rider C Collection (Refund)	158.5	185.8	104.6
26	Prior DAR Collection (Refund)	(6.1)	(24.0)	4.5
27	**Net Surplus (Shortfall)**	4.5	(4.7)	1.0
28	**TOTAL CAPITAL [3]**	25.5	28.6	23.1

Notes: Numbers may not add due to rounding.
Shaded numbers indicate significant variances which are discussed in the text.
[1] DAR means Deferral Account Reconciliation.
[2] 2015 DAR revenue are unchanged from 2013-2014 DAR revenue for 2012, 2011 and 2010.
[3] The numbers shown represent the AESO's total corporate capital expenditures for 2012, 2011 and 2010 which were unchanged from the 2013-2014 DAR amounts.

Line 5 2015 DAR Costs - Total Wires Costs

220 The recorded wires costs in the 2015 deferral account reconciliation reflect billings by the TFOs and accruals estimated by the AESO for 2012, 2011 and 2010 up to December 31, 2015, which is the data cut-off date for this application.

221 The 2012 third reconciliation recorded cost for wires was $916.0 million, which is $4.7 million (or 0.5%) lower than the second reconciliation recorded cost of $920.8 million. The third reconciliation cost reflects an accrual amount of $2.6 million from ATCO Electric's 2013-2014 deferral account reconciliation application and $2.3 million from final approval of ATCO Electric's 2012 transmission deferral account reconciliation application in Decision 20580-D01-2015.

222 The 2011 fourth reconciliation recorded cost for wires was $776.0 million, which is $4.7 million (or 0.6%) higher than the third reconciliation recorded cost of $771.3 million. The fourth reconciliation cost mainly reflects Decision 20580-D01-2015, which approved ATCO Electric's 2012 transmission deferral application on a final basis and included a $3.9 million charge for 2011.

223 The 2012 third reconciliation and 2011 and 2010 fourth reconciliation recorded costs for ancillary services and for the AESO's own administrative costs did not vary significantly from the previous reconciliation recorded costs for those items.

224 The 2012 third reconciliation and 2011 and 2010 fourth reconciliation revenue amounts did not vary from the previous reconciliation revenue amounts.

225 There were no significant changes to 2012, 2011 and 2010 deferral account balances for individual rate component charges compared to previous reconciliations.

226 The overall impact to the net deferral account balance resulting from the adjustments to 2012, 2011 and 2010 which occurred in 2015 are:

- a 2012 deferral account balance decrease to an over-collection of $4.5 million (or 0.3% of recorded costs);
- a 2011 deferral account balance increase to an under-collection of $4.7 million (or 0.4% of recorded costs); and
- a 2010 deferral account balance decrease to an over-collection of $1.0 million (or 0.1% of recorded costs).

7 Allocation to Market Participants

227 The allocation of deferral account balances and adjustments is implemented through the continued use of a software program developed by the AESO to calculate deferral account reconciliation amounts.

7.1 Allocation of Deferral Account Balances

228 As with previous deferral account reconciliation applications, deferral account balances are calculated on a production month basis as the costs paid by rate and rate component for each year. Consistent with treatment in prior years, these deferral account balances have been allocated to individual market participants based on each market participant's percentage of base rate revenue collected based on Rate DTS and Rate FTS that were in place during the period, by month and by rate component.

229 After the allocation of deferral account balances is determined by rate and rate component for each market participant, additional revenue already settled through Rider C or in prior deferral account reconciliations with each market participant 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.

230 For additional clarity, in this application the second reconciliations for 2014 and 2013, the third reconciliation for 2012 and the fourth reconciliations for 2011 and 2010 all include deferral account charges or refunds relating to those years which were financially settled in 2016 and 2013 as a result of prior reconciliation proceedings. The additional revenue by market participant that is subtracted from or added to the deferral account balances includes the settlement amounts approved in the 2013-2014, 2012 and 2010-2011 deferral account reconciliation proceedings.

7.2 Provision of Market Participant Allocation Information

231 The results of the deferral account allocation for each market participant who received system access service under Rate DTS, *Demand Transmission Service* or Rate FTS, *Fort Nelson Demand Transmission Service* are included in Appendices E, G, and H of this application, in annual market participant detail summaries and market participant allocation detail. As discussed in Section 2.7 of this application, market participant confidentiality is protected by assigning a number to each AESO direct-connect market participant as has been done in prior deferral account reconciliation applications. The numbers assigned to a specific market participant are not necessarily the same for each deferral account year in this application, and are not necessarily the same as those used in prior applications.

232 After filing this application, the AESO will distribute to each market participant the applicable market participant numbers for the deferral account reconciliation years included. As well, the AESO will provide on request to market participants with multiple settlement points deferral account allocation data for each of the market participant's settlement points. Such information is too extensive and detailed to be included with this application, and it is impractical to protect market participant confidentiality through numerical coding when dealing with hundreds of settlement points. Instead, the AESO will advise market participants of the availability of settlement point data at the time it provides market participant numbers. The settlement point data will include information comparable to that provided in Appendices E, G and H, in Microsoft Excel format.

233 The AESO notes that a market participant may assign its system access service agreement to another market participant (the "assignee") in accordance with the ISO tariff.[16] Where such an assignment has occurred, the deferral account allocation will be applied to the account of the assignee, and the applicable market participant numbers will be provided only to the assignee.

234 The AESO has determined assignees and prepared the appendices of this deferral account reconciliation application as of May 31, 2016 for charges and refunds included in the application. No assignment agreements have been executed since then.

7.3 Uncollectible Amounts

235 As summarized above, deferral account balances are allocated retrospectively to individual market participants who received system access service under Rate DTS or Rate FTS based on each market participant's percentage of base rate revenue collected based on the rates in place during the period, by month and by rate component. The amounts allocated to each market participant will be collected from or refunded to the market participant as discussed in Section 8 below. Where a market participant has assigned its system access service agreement to another market participant, the deferral account allocation will be collected from or refunded to the market participant to whom the service has been assigned. Up to and including the AESO's 2008 deferral account reconciliation, the AESO has collected or refunded all deferral account amounts allocated to market participants.

236 For allocations resulting from the 2013-2014, 2012, 2010-2011 and 2009 deferral account reconciliations, the AESO has been unable to collect amounts allocated to market participants no longer operating in Alberta. For allocations resulting from this 2015 deferral account reconciliation application, the AESO expects that, in specific and infrequent circumstances, it may also be unable to collect or refund a deferral account allocation from or to a market participant. The anticipated circumstances are those where a market participant has:

(a) terminated system access service with the AESO;

(b) discontinued its business operations, either through bankruptcy, dissolution, or other formal proceeding; and

(c) has not assigned its system access service agreement to another market participant.

237 In those specific circumstances, an allocation of deferral account balances to the market participant who has discontinued operations may be uncollectible from that market participant. ("Uncollectible" is used in a general sense, and the AESO acknowledges that, technically, only a charge would be uncollectible while a refund would be "unrefundable".) Although the specific circumstances are expected to be infrequent, allocations to the same market participant may result in uncollectible amounts in several deferral account reconciliation applications if those applications include re-reconciliations for years in which the market participant received system access service before discontinuing operations.

238 The AESO also notes that in those cases where a market participant has discontinued operations without assigning its system access service to another market participant, the facilities used to provide system access service are expected to remain in service. Those facilities typically provide service to other existing or new market participants, including any market participant who takes over the original participant's assets without assignment of the system access service agreement. As well, charges billed prior to a market participant discontinuing its operations would be settled with that market participant through normal processes. Only later amounts resulting from retrospective deferral account reconciliation and allocation would potentially become uncollectible.

[16] Subsection 2 of Section 15 of Terms and Conditions the 2014 ISO Tariff

239 To date, the uncollectible amounts resulting from market participants who terminate service and discontinue operations without assigning their system access service agreements include:

- a $46 charge resulting from the 2013-2014 deferral account reconciliation allocated to one of those market participants as discussed below from the 2010-2011 deferral account reconciliation;
- a $9 refund resulting from the 2012 deferral account reconciliation allocated to one of those market participants as discussed below from the 2010-2011 deferral account reconciliation;
- a total $758 refund resulting from the 2010-2011 deferral account reconciliation allocated to two market participants, one of whom was the same market participant that was allocated an uncollectible amount in 2009; and
- a $566 charge resulting from the 2009 deferral account reconciliation allocated to a market participant no longer operating in Alberta.

240 The $46 charge resulting from the 2013-2014 deferral account reconciliation has been included as an adjustment in 2015 in this deferral account reconciliation application. The $9 refund and $758 related to the 2012 and 2010-2011 deferral account reconciliation applications respectively were included as adjustments in 2013 in the 2013-2014 deferral account reconciliation application The $566 charge amount resulting from the 2009 deferral account reconciliation was included as an adjustment in 2012 in the 2012 deferral account reconciliation application. The treatment of uncollectible amounts is summarized in Table 7-1.

241 The AESO will continue its practice to collect or refund such amounts until such time as it determines that all reasonable attempts have been made and the amounts will remain uncollectible. The AESO will monitor and report uncollectible amounts in future deferral account reconciliation applications, and will review its approach to uncollectible amounts if such amounts become significant in magnitude.

Table 7-1 Continuity of Uncollectible Amounts, $

Line No.	Description	Deferral Account Reconciliation Application					Totals
		2015	2013-2014	2012	2010-2011	2009	2015 to 2009
1	Uncollectible Amounts, Opening Balance	$46	($767)	($192)	$566	-	-
2	Uncollectible Charges (Refunds)	-	46	(9)	(758)	566	(155)
3	Number of Market Participants	-	1	1	2	1	2
4	Adjustments – Refunds (Charges)	(46)	767	(566)	-	-	155
5	**Uncollectible Amounts, Closing Balance**	**-**	**$46**	**($767)**	**($192)**	**$566**	**-**

Note: Numbers may not add due to rounding.

8 Proposed Method of Refunding and Collecting

242 Consistent with the approach approved for the AESO's prior deferral account reconciliations, the AESO proposes to settle the outstanding deferral account balances through a one-time payment and collection option. Under this option, the AESO proposes to refund or collect the amounts for each market participant within 60 days from the date of the Commission decision regarding this application.

243 Although the AESO favours the one-time payment and collection option to expedite the final resolution and financial settlement related to the deferral account balances, it appreciates that it is not in a position to determine if this option presents a financial burden to market participants. If this option does present a financial burden to a market participant, the AESO considers it reasonable to offer a 3-month payment option, including carrying charges, similar to that offered to market participants in previous deferral account reconciliations.

8.1 Immediate Interim Settlement

244 As discussed in Section 1.2 of this application, the AESO proposes that the refunds and charges to and from market participants as a result of this application be settled as soon as possible on an interim refundable basis. The AESO understands that prior to approving immediate interim settlement, the Commission would need to be satisfied that the amounts are accurate and that such an order is in the public interest.

245 In the AESO's view, the reasons set out in Section 1.2 provide a sufficient basis for the Commission to approve the settlement of the deferral account balances in the amounts allocated in this application on an interim refundable basis. The AESO should be able to financially settle deferral account balance amounts with market participants in the month following that in which approval is granted. The AESO will therefore plan interim settlement on invoices to be issued in August 2016, subject to approval by the Commission. To enable settlement on invoices issued in August 2016, the Commission would need to provide interim approval by August 3, 2016. Interim approval after that date (but before the end of August 2016) would result in settlement on invoices issued in September 2016.

246 Appendix E includes the total Rate DTS and Rate FTS amounts that will be settled with individual market participants on an interim refundable basis as a result of this application, pending approval of the Commission. Table 8-1 summarizes the distribution of charges and refunds among individual Rate DTS and Rate FTS market participants. The AESO notes that in both the appendices of this application and in Table 8-1 and 8-2, Rate FTS amounts have been included with Rate DTS amounts as only one market participant (BC Hydro) receives service under Rate FTS.

247 Table 8-1 indicates that nine Rate DTS and Rate FTS market participants will receive refunds totaling $13.8 million as a result of this 2015 deferral account reconciliation application, while 54 Rate DTS and Rate FTS market participants will receive charges totaling $7.1 million.

248 The total charges to market participants are $7.1 million compared to refunds to other market participants of $13.8 million. The net deferral balance is a refund of $6.7 million. The AESO submits that settlement of the amounts in this application would therefore improve the accuracy of the allocation of deferral account balances to market participants, which further supports the approval of interim settlement of the deferral account amounts in this application.

Table 8-1 Distribution of Charges and Refunds Among Market Participants

	Number of Participants		Total Amount, $ 000 000		
	DTS and FTS		DTS and FTS		
Range of Refunds and Charges	DFO [1]	Non-DFO	DFO [1]	Non-DFO	**Total**
Refund Greater Than $1,000,000 to $5,000,000	3	-	$12.0	-	$12.0
Refund Greater Than $100,000 to $1,000,000	1	5	0.3	1.5	1.8
Refund Greater Than $0 to $100,000	-	-	-	-	-
Subtotal Refunds	**4**	**5**	**$12.3**	**$1.5**	**$13.8**
Charge Greater Than $0 to $10,000	-	12	-	($0.1)	($0.1)
Charge Greater Than $10,000 to $100,000	1	21	(0.1)	(0.9)	(1.0)
Charge Greater Than $100,000 to $1,000,000	1	19	(0.4)	(5.6)	(6.1)
Subtotal Charges	**2**	**52**	**($0.5)**	**($6.6)**	**($7.1)**
Total Refunds and (Charges)	**6**	**57**	**$11.8**	**($5.1)**	**$6.7**

Notes: Numbers may not add due to rounding.
[1] DFO means Distribution Facility Owner.

249 During stakeholder consultation in advance of finalizing this application, participants requested information similar to that provided in Table 8-1 on a settlement point basis. Table 8-2 provides the requested information by removing the aggregation of settlement points by distribution system owners and direct-connect market participants with multiple system access services.

250 Table 8-2 indicates that 212 settlement points will receive refunds totaling $27.1 million as a result of this 2015 deferral account reconciliation application, while 368 settlement points will receive charges totaling $20.4 million.

Table 8-2 Distribution of Charges and Refunds Among Settlement Points

	Number of Settlement Points		Total Amount, $ 000 000		
	DTS and FTS		DTS and FTS		
Range of Refunds and Charges	DFO [1]	Non-DFO	DFO [1]	Non-DFO	**Total**
Refund Greater Than $1,000,000 to $5,000,000	2	-	$2.9	-	$2.9
Refund Greater Than $100,000 to $1,000,000	76	5	17.2	1.9	19.0
Refund Greater Than $0 to $100,000	122	7	4.9	0.2	5.1
Subtotal Refunds	**200**	**12**	**$25.0**	**$2.1**	**$27.1**
Charge Greater Than $0 to $10,000	50	23	($0.2)	($0.1)	($0.3)
Charge Greater Than $10,000 to $100,000	214	32	(8.8)	(1.2)	(10.0)
Charge Greater Than $100,000 to $1,000,000	27	22	(4.2)	(5.9)	(10.0)
Subtotal Charges	**291**	**77**	**($13.2)**	**($7.2)**	**($20.4)**
Total Refunds and (Charges)	**491**	**89**	**$11.8**	**($5.1)**	**$6.7**

Notes: Numbers may not add due to rounding.
[1] DFO means Distribution Facility Owner.

251 As already noted, the amounts settled on invoices issued after an interim decision would be interim and refundable, and subject to adjustment in the final decision on the 2015 deferral account reconciliation application following a full regulatory review. In the event such adjustment is required, the AESO proposes that the impact of the adjustment be assessed to determine whether a separate settlement process is required or whether the adjustment can be included in the 2016 deferral account reconciliation application expected to be filed in the second quarter of 2017.

9 Conclusion

252 Based on all of the foregoing, the AESO respectfully requests that the Commission approve this 2015 deferral account reconciliation application as applied for, including:

(a) the deferral account balance reconciliations for the calendar years 2015, 2014, 2013, 2012, 2011 and 2010 as presented in Sections 3 to 6 of this application;

(b) the methodology of allocating deferral account balances to market participants as presented in Section 7 and Appendices E through H of this application, for purposes of recovering and refunding outstanding variance amounts from and to market participants receiving system access service under Rate DTS or Rate FTS of the ISO tariff;

(c) the collection and refund by the AESO of amounts through the use of a one-time collection and refund option similar to that used for previous years' deferral account balances, as more particularly described in Section 8 of this application;

(d) the collection and refund by the AESO of the market participant amounts included in this application as soon as practical on an interim refundable basis with such amounts subject to adjustment in final approvals following a full regulatory review, as described in Section 8 of this application; and

(e) such further and other relief as the Commission may prescribe.

253 All of which is respectfully submitted this 17th day of June, 2016.

Alberta Electric System Operator

Per: *"Heidi Kirrmaier"*
Heidi Kirrmaier
Vice-President, Regulatory