Alberta Electric System Operator 2019 Deferral Account Reconciliation Application

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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 2019; and of changes to deferral account balances for 2018, 2017, 2016, 2015, 2014, 2013 and 2012.

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, *Demand Transmission Service* ("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* ("Rate DTS"), or Rate FTS, *Fort Nelson Demand Transmission Service* ("Rate FTS") of the Independent System Operator ("ISO") tariff during 2012 to 2019.

3 The balances included in this application result in a $41.6 million net deferral account shortfall after applying charges and refunds resulting from Rider C, *Deferral Account Adjustment Rider* ("Rider C") of the ISO tariff as well as any prior deferral account reconciliation settlements. The $41.6 million net shortfall is summarized in Table 1-1 below.

Table 1-1 Annual Deferral Account Balances Summary

Production Year	***(Shortfall) Surplus Amount (000 000)***	***Reconciliation No.***	***Previous Reconciliation***	***Previous Reconciliation Production Year Cut-off Date***	***DAR Methodology (Decision No.) ****
2019	($15.9)	1	-	-	22942-D02-2019
2018	($1.6)	2	2017-2018 DAR	Dec 31, 2018	22942-D02-2019
2017	($32.0)	2	2017-2018 DAR	Dec 31, 2018	22942-D02-2019
2016	($8.9)	3	2017-2018 DAR	Dec 31, 2018	23802-D02-2018
2015	$22.8	4	2017-2018 DAR	Dec 31, 2018	21735-D02-2017
2014	($3.7)	5	2017-2018 DAR	Dec 31, 2018	20866-D01-2016
2013	$2.6	5	2017-2018 DAR	Dec 31, 2018	20866-D01-2016
2012	($4.9)	6	2017-2018 DAR	Dec 31, 2018	2014-034
Total	**($41.6)**				

* Decision No. for the methodology approved for the first reconciliation of that production year.

4 This application includes certain significant amounts that were accounted for on or after January 1, 2019 and up to the cut-off date of December 31, 2019 and attributed to periods prior to the end of 2019 under the production year presentation used in this application. These significant prior-period adjustments include (but are not limited to) the following[2]:

[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.
[2] Additional detail on all wires costs amounts is provided in Appendix D-5, Wires Forecast Detail (2012 to 2019)

(a) a $22.1 million increase attributed to 2017 wires costs and a $6.1 million increase attributed to 2016 reflecting AltaLink Management Ltd.'s ("AltaLink's") 2016-2018 projects deferral account reconciliation application filed on July 7, 2019[3];

(b) a $5.9 million decrease attributed to 2015 wires costs, a $5.0 million increase attributed to 2014 wires costs, a $2.6 million decrease attributed to 2013 wires costs, and a $0.8 million decrease attributed to 2013 reflecting Commission Decision 24919-D01-2019[4] issued on November 4, 2019 on AltaLink's 2014-2015 deferral account reconciliation;

(c) a $12.9 million increase attributed to 2017 wires costs, a $16.9 million decrease attributed to 2015 and a $1.3 million decrease attributed to 2014 costs reflecting ATCO Electric Ltd.'s ("ATCO Electric's") 2015-2017 projects deferral account reconciliation application filed on March 25, 2019[5]; and

(d) a $5.7 million increase attributed to 2012 wires costs reflect ATCO Electric's second Hanna Region Transmission Development deferral account reconciliation Compliance filing[6] filed on July 22, 2019[7].

5 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

6 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.

7 The ISO tariffs in effect during each of the years from 2012 to 2019 were approved in various decisions and orders of the Commission as follows:

Table 1-2 Summary of ISO Tariff Decisions

Date ISO Tariff Effective	Decision No.	Date Decision Issued
July 1, 2011	Decision 2011-275	June 24, 2011
October 1, 2013	Decision 2013-325	August 28, 2013
	Decision 2014-242	August 21, 2014
July 1, 2015	Decision 3473-D01-2015	June 17, 2015
April 1, 2016	Decision 21302-D01-2016	March 31, 2016
January 1, 2017	Decision 22093-D01-2016	December 2, 2016
January 1, 2018	Decision 23065-D01-2017	November 28, 2017
January 1, 2019	Decision 24036-D01-2018	December 18, 2018

[3] Proceeding 24681, AML 2016-2018 Projects Deferral Accounts Reconciliation Application, AltaLink Management Ltd.
[4] Decision 24919-D01-2019, AltaLink Management Ltd., 2014-2015 Deferral Accounts Reconciliation Second Compliance Filing, November 4, 2019.
[5] Proceeding 24375, ATCO Electric Transmission Application for Disposal of 2015-2017 Transmission Deferral Accounts and Annual Filing for Adjustment Balances, ATCO Electric Ltd.
[6] Decision 24753-D01-2020, ATCO Electric Ltd., Hanna Region Transmission Development Deferral Account Compliance Filing, March 19, 2020.
[7] Decision 24753-D01-2020 on regarding ATCO Electric's second Hanna Region Transmission Development deferral account reconciliation Compliance filing was issued on March 19, 2020 after the cut-off date for this 2019 DAR.

8 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.

9 Each of the ISO tariffs in effect during the years addressed in this application includes Rider C to recover or refund accumulated deferral account balances and to restore the deferral account balance to zero (0) over the following calendar quarter, or such longer period as determined by the ISO to minimize rate impact.

10 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. Under the deferral account methodology most recently approved by the Commission,[8] 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 year" basis.

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

Table 1-3 Summary of Deferral Account Reconciliation Decisions

Application	***Decision No.***	***Date Decision Issued***
2012 Deferral Account Reconciliation	Decision 2014-034	February 13, 2014
2013-2014 Deferral Account Reconciliation	Decision 20866-D01-2016	January 14, 2016
2015 Deferral Account Reconciliation	Decision 21735-D02-2017	March 14, 2017
2016 Deferral Account Reconciliation	Decision 23802-D02-2018	November 23, 2018
2017-2018 Deferral Account Reconciliation	Decision 24910-D01-2019	December 11, 2019

12 No transactions occurred from January 1, 2019 to December 31, 2019 that related, either in whole or in part, to any year prior to 2012. Accordingly, no deferral account reconciliations or adjustments are included in this application for years prior to 2012.

13 This application provides a first reconciliation of 2019 deferral account balances as shown in Table 1-1 above. The deferral account reconciliations for production year 2019 have been prepared on a retrospective, annual, and production year basis. This 2019 deferral account reconciliation application relies on the final approval granted by the Commission in Decision 22942-D02-2019[9] to apply the revised deferral account reconciliation methodology for the 2017 and future production years discussed further in Section 2.2 below.

14 This application provides subsequent reconciliations for years 2012 to 2018 deferral account balances as shown in Table 1-1 above. The deferral account reconciliations for years 2016 to 2012 have been prepared on a retrospective, monthly, and production month basis, consistent with the method used in all reconciliations from 2004 to 2016 as reviewed and approved by the Commission.

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[8] Decision 22942-D02-2019 at para. 279.

[9] Approved on a final basis in Decision 22942-D02-2019, 2018 ISO Tariff at paragraph 279. The AESO filed its 2018 ISO Tariff Compliance Filing and 2020 Tariff Update Application on January 31, 2020, which did not require any updates to the deferral account reconciliation methodology approved in Decision 22942-D02-2019.

15 The AESO will continue to use the applicable methodology to reconcile deferral accounts for each production year prior to 2019 as approved by the Commission and described in the deferral account application for the first reconciliation of that production year.

16 The deferral account reconciliation methodology establishes the AESO's process to calculate the balances that are charged or refunded to market participants on a production year or month basis. The deferral account balances sometimes represent a material adjustment to the annual revenue provided by a market participant. More detailed discussion of the annual deferral account balances is provided in the relevant sections of this application

1.2 Interim Settlement with Market Participants

17 The AESO is requesting that the Commission approve this application on both an interim refundable and final 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. Delays in settling the deferral account shortfalls result in increases in accrued interest on borrowing and therefore increased costs to market participants.

18 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 $41.6 million net shortfall balance reconciled in this application represents probable and material amounts for a number of market participants, which is one reason it is appropriate to request interim approval.

19 The allocation of deferral account balances to market participants has been prepared in this application using the methodology as described in the first reconciliation for a production year and using that same methodology for each subsequent reconciliation of that single production year; 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 2019 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, which is another reason it is appropriate to request interim approval.

20 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 9.1 of this application.

1.3 Organization of this Application

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 2019 Financial Results and Deferral Account Balance — Discusses cost and revenue variances for 2019 and provides the deferral account balances for 2019.

4 2018 Financial Results and Deferral Account Balance — Discusses adjustments to cost and revenue that occurred after the first 2018 deferral account reconciliation and provides the outstanding deferral account balances for 2018.

5 2017 Financial Results and Deferral Account Balance — Discusses adjustments to cost and revenue that occurred after the first 2017 deferral account reconciliation and provides the outstanding deferral account balances for 2017.

6 2016 Financial Results and Deferral Account Balance — Discusses adjustments to cost and revenue that occurred after the second 2016 deferral account reconciliation and provides the outstanding deferral account balances for 2016.

7 2015, 2014, 2013 and 2012 Financial Results and Deferral Account Balances — Discusses adjustments to cost and revenue that occurred after previous deferral account reconciliations and provides the outstanding deferral account balances for 2015, 2014, 2013 and 2012.

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

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

10 Conclusion

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

1.4 Relief Requested

22 Based on the entirety of the information provided with this application, the AESO requests approval of this application, including:

(a) the deferral account balance reconciliations for the calendar years 2019, 2018, 2017, 2016, 2015, 2014, 2013, and 2012 as presented in Sections 3 to 7 of this application;

(b) the methodology of allocating deferral account balances to market participants as presented in Section 2 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 9 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 9 of this application; and

(e) such further and other relief as the Commission deems appropriate.

2 Summary of Deferral Account Reconciliation Process

2.1 Data Included in this Application

23 In addition to amounts settled in prior deferral account reconciliations for 2018, 2017, 2016, 2015, 2014, 2013 and 2012, 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 2019 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, 2019.

24 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 2010 ISO tariff application and approved in Decision 2011-275 regarding the 2010 ISO tariff compliance filing (the method is further described in Section 2.2.2 of this application); and
- TFO deferral account reconciliation amounts or other adjustments approved by the Commission.

25 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.

26 The ancillary service costs and the AESO's own administrative costs[10] included in the AESO's revenue requirement are generally 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 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. Typically, in the third quarter of each year, the AESO 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.

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

28 As described in AESO's 2018 comprehensive tariff application,[11] which was approved in Decision 22942-D02-2019, the AESO intends to continue to file ISO tariff update applications in Q3 of each year. In certain years, the AESO Budget Review Process is not completed by Q3 of the year proceeding the tariff year. As a result, the ancillary services and the AESO's own administrative costs included in the AESO's revenue requirement may be based on a preliminary forecast or a Board approved revenue requirement from the previous year. The objective of reducing DAR imbalances by filing early tariff updates is more significantly impacted by wires costs approvals than ancillary services and AESO's own administrative costs as wires costs comprise over 80% of the total Rate DTS revenue requirement and are the more significant contributor to deferral account balances.

29 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 2019 reconciliation after final settlement of 2019 volumes. Any deferral account year-end amounts remaining to be refunded or collected after December 31, 2019 are retained by the AESO for reconciliation in this 2019 deferral account reconciliation application and will not be refunded or collected through Rider C during 2020.

30 This application does not reconcile any amounts with respect to 2011 or any prior year, as there were no costs paid or revenue collected by the AESO with respect to 2011 and prior years on or after January 1, 2019 and up to December 31, 2019.

2.1.1 Significant Variance Thresholds

31 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.

32 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.

33 The AESO considers a line item variance to be significant when it exceeds approximately 10% of the general and administrative costs component of the AESO's revenue requirement. A line item variance smaller than the 10% of the general and administrative costs is also considered significant when it is both at least 1% of the general and administrative costs and at least ±10% of the approved line item amount.

34 The AESO considers it reasonable that specific explanations are not required for variances below these significance thresholds. The AESO also considers it reasonable to reduce the significance thresholds for subsequent reconciliations for a production year.

2.1.2 Forfeited Refunds of Generating Unit Owner's Contributions

35 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*,[12] over a period of not more than ten (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*.

[11] Exhibit 22942-X0008, para. 32.
[12] 2017 ISO tariff and 2018 ISO tariff.

36 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.

37 Table 2-1 summarizes the generating unit owner’s contributions collected, refunded, and forfeited from 2019 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 2019, $8.8 million of generating unit owner’s contributions were refunded and $0.7 million forfeited. Since 2006, about 5.8% 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) 2019*	*2006 to 2018*	*Totals 2019 to 2006*
1	Contributions, Opening Balance	$48.5	-	-
2	Additional Contributions During Year	10.2	85.7	95.9
3	Contribution Refunds During Year			
4	Refunds to Generating Unit Owners	(8.8)	(35.1)	(43.9)
5	Forfeited Refunds	(0.7)	(2.0)	(2.7)
6	Total Contribution Refunds During Year	(9.4)	(37.2)	(46.6)
7	**Contributions, Closing Balance**	**$49.3**	**$48.5**	**$49.3**

Note: Numbers may not add due to rounding

2.1.3 Adjustments Not Included

38 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.[13] 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 2019 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.

39 Any adjustments relating to 2019 or prior years which occurred after December 31, 2019 are not included in this application and will be addressed in a future deferral account reconciliation application.

2.2 Deferral Account Reconciliation Methodology

40 The AESO is not proposing any changes to the deferral account reconciliation methodology or Rider C in this application. This 2019 deferral account reconciliation application relies on the approval granted by the

[13] Application 1605961, Proceeding 530, Exhibit 0070.00.ISO-530, Application (Revised) at paras. 316-322.

Commission in Decision 22942-D02-2019[14] issued on September 22, 2019 to apply the revised deferral account reconciliation methodology for the 2019 production year. The approved changes to the deferral account reconciliation methodology apply to production year 2017 and forward, and to Rider C and Rate PSC, effective January 1, 2018.[15]

41 The AESO will continue to use the applicable methodology to reconcile deferral accounts for each production year as approved by the Commission and described in the deferral account application for the first reconciliation of that production year.

2.2.1 Production Month and Year Presentation

42 All costs and revenue included in this application for production years 2012 through to 2016 are presented on a production month basis. For the production years 2012 through to 2016 included in this 2019 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.

43 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 5% to 9% of the AESO's annual revenue requirements 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.

44 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.

45 All costs and revenue included in this application for production years 2017 through to 2019 are presented on a production year basis. For production years, adjustments to costs or revenue arising after the year to which an initial invoice pertains are attributed back to that original year. With the production year basis methodology, all costs and revenues including AESO's own administrative costs and Rider C amounts are consistently applied to production year.

46 Adjustments to costs and revenue also occur 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;

[14] Decision 22942-D02-2019 issued on September 22, 2019 at para. 279.
[15] Proceeding 22942, Exhibit X0002.01 at Section 6.1 and Exhibit 22942-X0008.

- revisions to contract terms; and
- revisions to rate calculations or application.

2.2.2 Transmission Facility Owners' Wires Costs Forecasts

47 The forecast of TFOs' wires costs has been calculated in accordance with the following approach, which was described in the 2010 ISO tariff application, approved in Decision 2011-275[16] and updated in Decision 22093-D02-2017 used in the calculations of wires costs in this 2019 deferral account reconciliation application:

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

(b) If a TFO has applied for its production year 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 TFO tariff costs included in the refiling.

(c) If a TFO has applied for its production year 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 most recent of the following: (i) the transmission facility owner tariff costs last approved by the Commission on a final basis for the TFO plus 72% of any increase or decrease included in the TFO's production year tariff application above or below the prior approved costs, and (ii) the TFO tariff costs last applied-for by the TFO in a compliance refiling plus 72% of any increase or decrease included in the TFO's tariff application above or below the prior approved costs.

(d) If a TFO has not yet applied for its production year tariff, the AESO includes the most recent of the following: (i) the TFO tariff costs last approved by the Commission on either a final or interim basis, and (ii) the TFO costs last applied-for by the TFO in a compliance filing.

48 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*.

49 Similar to how the forecast wires costs includes applied-for and interim application amounts,[17] the AESO incorporates and records these costs as an "accrual".

50 The specific determinations of the forecast wires cost for each TFO are detailed in Appendix D-5, *Wires Forecast Detail (2012 to 2019),* to this application.

2.2.3 Allocation of Deferral Account Balances

51 The variances between costs and base rate revenue included in Table 2-3 affect the deferral account balances to be collected from or refunded to market participants. Base rate revenue results from Rate DTS and Rate FTS that were in place during the deferral account period, by year and month and by rate component.

52 Adjustments to base rate revenue received from individual market participants affects the allocation of the deferral account balances to those market participants, since deferral account balances are allocated

[16] Decision 2011-275 at para. 98.
[17] Process described in Section 2.2.2 of this application.

based on a market participant's base rate revenue when a deferral account is subject to reconciliation as for all years in this application.

53 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.

54 Consistent with treatment in prior years, the deferral account balances for production years 2012 through to 2016 have been allocated to individual market participants based on each market participant's percentage of base rate revenue collected, with one exception described in AESO's 2016 deferral account reconciliation application.[18]

55 As discussed in Section 2.2 above, in its 2018 comprehensive ISO tariff application, the AESO's proposed changes to the terms of Rate PSC to include the application of Rider C were approved on an interim basis, effective January 1, 2018, and on a final basis in Commission Decision 22942-D02-2019 issued on September 22, 2019.

56 As a result of the deferral account reconciliation methodology approved in Decision 22942-D02-2019,[19] the deferral account balances for production years 2017 through to 2019 have been allocated to individual market participants based on each market participant's percentage of base rate revenue collected, offset by Rate PSC.

57 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 or production year basis, by rate and rate component.

2.3 Deferral Account Balances

58 Table 2-2 summarizes the deferral account balances and adjustments addressed in this application for deferral account years 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012.

59 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, are shown in Column B in Table 2-2 below.The AESO notes that Rider C revenue attributed to a specific year includes amounts collected or refunded during the calendar year.

60 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 2019 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 shown in Column D in Table 2-2 below.

[18] See paras. 214 – 216 of AESO's 2016 Deferral Account Reconciliation Application, Proceeding 23802, Exhibit X0002.
[19] Approved on a final basis in Commission Decision 22942-D02-2019 issued on September 22, 2019.

Table 2-2 Annual Deferral Account Balances Before and After Rider C and Prior Deferral Account Reconciliations

Production Year ***[A]***	***(Shortfall) Surplus Amount ($ 000 000) Before Rider C*** ***[B]***	***% of Costs*** ***[C]***	***(Shortfall) Surplus Amount ($ 000 000) After Rider C and Previous DAR reconciliations*** ***[D]***	***% of Costs*** ***[E]***
2019	($121.2)	(5.6%)	($15.9)	(0.7%)
2018	(82.3)	(3.8%)	(1.6)	(0.1%)
2017	(18.3)	(0.9%)	(32.0)	(1.6%)
2016	(116.6)	(6.1%)	(8.9)	(0.5%)
2015	(290.4)	(15.8%)	22.8	1.2%
2014	(161.5)	(9.9%)	(3.7)	(0.2%)
2013	(118.8)	(7.9%)	2.6	0.2%
2012	(95.2)	(7.1%)	(4.9)	(0.4%)
Total	**($1,004.2)**	**(6.9%)**	**($41.6)**	**(0.3%)**

61 The net impact of the 2019 to 2012 deferral account reconciliations provided in this application is a net shortfall of $41.6 million, as provided in Table 2-2 above.

62 For comparison with Table 2-3, Table 2-4 provides a summary of comparable amounts as included in the most recent, applicable, previous deferral account reconciliation application by year. In addition, Table 2-5 summarizes the differences between Tables 2-3 and 2-4, 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.

63 As directed by the Commission in Decision 24910-D01-2019,[20] the AESO notified DFOs on March 31, 2020, that the preliminary estimate for the deferral account balance in its upcoming 2019 DAR application would be a shortfall of $42.1 million[21].

[20] Decision 24910-D01-2019, Alberta Electric System Operator, 2017 and 2018 Deferral Account Reconciliation, December 11, 2019.

[21] The final 2019 DAR shortfall amount, as noted in Table 1-1 of this application, is $41.6 million.

Table 2-3 Summary of 2019 Deferral Account Reconciliation Application, $ 000 000

	Production Year					Totals
Component	**2019**	**2018**	**2017**	**2016**	**2015-2012**	**2019 to 2012**
Base Rate Revenue						
Connection	$1,835.8	$1,793.4	$1,839.1	$1,721.8	$4,606.4	
Operating Reserve	202.9	266.0	103.0	84.1	1,005.6	
Transmission Constraint Rebalancing	0.3	0.0	0.0	0.0		
Voltage Control	3.0	5.5	4.2	3.4	53.0	
Other System Support Services	4.9	6.1	6.0	5.6	17.7	
Total Base Rate Revenue	**$2,046.8**	**$2,071.0**	**$1,952.3**	**$1,815.0**	**$5,682.6**	**$13,567.7**
Tariff Revenue Offsets	**$7.6**	**$11.2**	**$18.5**	**($8.4)**	**($22.6)**	**$6.2**
Costs Paid						
Wires	($1,850.2)	($1,782.3)	($1,775.1)	($1,729.4)	($4,768.2)	
Ancillary Services	(213.0)	(277.8)	(115.0)	(93.3)	(1,158.4)	
Other Industry	(15.4)	(15.4)	(14.8)	(14.9)	(65.8)	
General & Administrative	(97.1)	(89.0)	(84.1)	(85.5)	(333.5)	
Total Costs Paid	**($2,175.6)**	**($2,164.5)**	**($1,989.0)**	**($1,923.1)**	**($6,325.9)**	**($14,578.1)**
Deferral Account						
(Shortfall) Surplus	($121.2)	($82.3)	($18.3)	($116.6)	($665.9)	($1,004.2)
Rider C Collection (Refund) n	105.3	3.7	(51.9)	(70.1)	812.1	799.0
Prior DAR[1] Collection (Refund)	-	77.0	38.2	177.8	(129.4)	163.6
Net (Shortfall) Surplus	**($15.9)**	**($1.6)**	**($32.0)**	**($8.9)**	**$16.8**	**($41.6)**

Note: Numbers may not add due to rounding

[1] DAR means Deferral Account Reconciliation

Table 2-4 Summary of 2017-2018 Deferral Account Reconciliation Application, $ 000 000

				Production Year				Totals
Component	***2019***	***2018***	***2017***	***2016***	***2015***	***2014***	***2013-2006***	***2018 to 2006***
Revenue								
Connection		$1,794.9	$1,839.6	$1,722.3	$1,412.2	$1,301.6	$5,097.4	
Operating Reserve		266.3	103.0	84.1	144.1	180.0	1,706.0	
Transmission Constraint Rebalancing		0.0	0.0	0.0	-			
Voltage Control		5.5	4.2	3.4	0.9	1.8	319.9	
Other System Support Services		6.1	6.0	5.6	2.9	2.7	57.7	
Total Revenue		**$2,072.9**	**$1,952.8**	**$1,815.5**	**$1,560.0**	**$1,486.1**	**$7,181.0**	**$16,068.3**
Tariff Revenue Offsets		**$11.2**	**$18.5**	**($8.4)**	**($9.8)**	**($10.7)**	**$98.4**	**$99.2**
Costs Paid								
Wires		($1,782.5)	($1,743.7)	($1,721.0)	($1,593.9)	($1,318.3)	($5,205.5)	
Ancillary Services		(277.8)	(115.0)	(93.3)	(171.2)	(213.9)	(2,233.7)	
Other Industry		(15.4)	(14.8)	(14.9)	(14.8)	(15.3)	(100.4)	
General & Administrative		(89.0)	(84.1)	(85.5)	(83.7)	(85.7)	(486.9)	
Total Costs Paid		**($2,164.8)**	**($1,957.6)**	**($1,914.7)**	**($1,863.5)**	**($1,633.3)**	**($8,026.4)**	**($17,560.3)**
Deferral Account								
(Shortfall) Surplus		($80.7)	$13.7	($107.6)	($313.3)	($157.8)	($747.1)	($1,392.8)
Rider C (Refund) Collection		3.7	(51.9)	(70.1)	220.2	185.5	1,000.3	1,287.7
Prior DAR[1] Collection (Refund)		-	-	180.9	80.7	(56.9)	(253.7)	(49.0)
Net (Shortfall) Surplus		**($77.0)**	**($38.2)**	**$3.1**	**($12.4)**	**($29.2)**	**($0.4)**	**($154.1)**

Note: Numbers may not add due to rounding

[1] DAR means Deferral Account Reconciliation

Table 2-5 Summary of 2019 Net Deferral Account Transactions Since Most Recent Previous Deferral Account Reconciliation, $ 000 000

			Production Year			Totals
Component	**2019**	**2018**	**2017**	**2016**	**2015 - 2012**	**2019 to 2012**
Base Rate Revenue						
Connection	$1,835.8	($1.5)	($0.6)	($0.5)	-	
Operating Reserve	202.9	(0.4)	(0.0)	(0.0)	-	
Transmission Constraint Rebalancing	0.3	(0.0)	(0.0)	-	-	
Voltage Control	3.0	(0.0)	-	(0.0)	-	
Other System Support Services	4.9	(0.0)	-	(0.0)	-	
Total Base Rate Revenue	**$2,046.8**	**($1.9)**	**($0.6)**	**($0.5)**	**-**	**$2,043.9**
Tariff Revenue Offsets	$7.6	$0.0	-	-	**-**	**$7.6**
Costs Paid						
Wires	($1,850.2)	$0.2	($31.4)	($8.4)	$16.8	
Ancillary Services	(213.0)	0.1	(0.0)	-	-	
Other Industry	(15.4)	-	-	-	-	
General & Administrative	(97.1)	-	-	-	-	
Total Costs Paid	**($2,175.6)**	**$0.3**	**($31.4)**	**($8.4)**	**$16.8**	**($2,198.3)**
Deferral Account						
(Shortfall) Surplus	($121.2)	($1.6)	($32.0)	($8.9)	$16.8	($146.9)
Rider C Collection (Refund)	105.3	-	-	-	-	105.3
Prior DAR[1] Collection (Refund)	-	-	-	-	-	-
Net (Shortfall) Surplus	**($15.9)**	**($1.6)**	**($32.0)**	**($8.9)**	**$16.8**	**($41.6)**

Note: Numbers may not add due to rounding

[1] DAR means Deferral Account Reconciliation

2.4 Cost Prudency Considerations

64 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 2.2.2 of this application, the wires costs included in this application reflect the approach approved by the Commission in Decision 2011-275.

65 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.

66 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.[22]

67 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.

68 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.

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

70 Where significant adjustments to 2018 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 costs incurred with respect to 2018 and prior years which were already included in the 2017-2018 deferral account reconciliation application was considered in the 2017-2018 deferral account reconciliation application and prior proceedings, and should not be reviewed again.

71 In this current application, the presentation of subsequent (i.e. second, third, fourth, fifth and sixth) reconciliations for production years already applied for in prior deferral account applications does not imply that all costs relating to those applications are again subject to review. Rather, the subsequent 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.

72 The AESO has accordingly provided schedules and explanations of significant variances by line item for 2019 and of significant adjustments to costs for 2018 and prior years where such adjustments have not previously been included in a deferral account reconciliation application, in Sections 3, 4, 5, 6 and 7 of this application.

2.5 Reconciliation to Financial Statements

73 The AESO's audited financial statements present costs and revenue on a financial or accounting year basis rather than on a production month or year 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

[22] Decision 2014-242 at para. 36.

contrast, deferral account reconciliations in this application include actual and anticipated cost and revenue adjustments which may be settled after the financial statements are audited.

74 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.

75 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

76 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.

77 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.

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

79 In summary, the AESO has prepared and filed this 2019 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

80 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.

81 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 Inc. ("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.

82 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.

83 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 9.1 of this application.

2.8 Future Deferral Account Reconciliations

84 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.

85 The AESO accordingly includes no proposals for further changes to Rider C or the deferral account reconciliation process in this application.

3 2019 Financial Results and Deferral Account Balance

86 The AESO's 2019 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 2019 revenue that is subject to retrospective deferral account reconciliation in this application is related to Rate DTS and Rate FTS.

87 Refer to Appendix L for a description of the deferral account reconciliation categories as itemized in the annual cost tables in Appendix K.[23]

88 In determining the financial results and deferral account balance for 2019, all cost and revenue transactions that occurred from January 1, 2019, to December 31, 2019 and that relate to 2019 have been included in the reconciliation. These transactions establish the 2019 production year data for deferral account reconciliation purposes in this application. The result of these transactions is shown in Table 2.3 above.

3.1 2019 Cost Variances

89 The AESO's 2019 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).

90 The TFO wires costs included in the AESO's 2019 revenue requirement were based on the TFO tariffs approved by the Commission for, or applied for by, each TFO at the time the AESO prepared the 2019 ISO tariff update[24] in late 2018. The Commission approved the 2019 ISO tariff update application in Decision 24036-D01-2018, issued on December 18, 2018, for rates to be effective January 1, 2019. The TFO wires costs reflected the status of each TFO's application for its 2019 tariff in accordance with the approach described above in Section 2.2.2 of this application.

91 Following consultation with stakeholders, AESO management submitted the *AESO 2019 Business Plan and Budget Proposal* to the AESO Board on November 13, 2018. 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 2019. The *AESO 2019 Business Plan and Budget Proposal* was also provided to stakeholders and posted on the AESO website and is included as Appendix I in this application.

92 The *AESO Board Decision 2019-BRP-001* dated January 17, 2019[25] approved the 2019 forecast costs for ancillary services, losses, and the AESO's own administrative costs and is included as Appendix J in this application. The 2019 forecast costs approved in *AESO Board Decision 2019-BRP-001* were the amounts included in the 2019 revenue requirement included in the 2019 ISO Tariff Update.[26]

93 Additional information on the AESO's business priorities and own administrative costs budget for 2019 is available on the AESO website at www.aeso.ca by following the path AESO ► About the AESO Business Planning and financial reporting ► Business plan and budget: 2019.

94 Table 3-1 of Appendix K presents the AESO's 2019 revenue requirement as amounts included in the 2019 ISO Tariff Update,[27] including amounts that are approved by the Commission (for TFOs) and by the

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[23] See "3-1 2019 Costs" tabs of Appendix K workbook.
[24] Proceeding 24036, Exhibit X0004.01 – Appendix B, 'B-1 Rev Req', as filed November 14, 2018.
[25] Decision on *AESO 2019 Business Plan and Budget Proposal*.
[26] Proceeding 24036, Exhibit X0004.01 – Appendix B, 'B-1 Rev Req'.
[27] Proceeding 24036, Exhibit X0004.01 – Appendix B, 'B-1 Rev Req'.

AESO Board (for ancillary services and the AESO's own administrative costs) in *AESO Board Decision 2019-BRP-001* as discussed above.

95 Table 3-1 of Appendix K also includes recorded costs as incurred or accrued for 2019, and variances between approved and recorded costs in both dollar amounts and as a percentage of approved costs.

96 Total 2019 recorded costs are $70.4 million (or 3.1%) lower than the total 2019 approved forecast. This significant[28] variance[29] includes 2019 recorded costs being:

- $15.6 million (or 0.9%) higher than the 2019 approved costs for wires;
- $100.8 million (or 32.1%) lower than the 2019 approved costs for ancillary services; and
- $15.0 million (or 18.2%) higher than the 2019 approved costs for general and administrative costs.

97 Variances arise due to a number of factors, including TFO tariff applications to the Commission, 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.

98 Significant variances exceeding thresholds, described above in Section 2.1.1 are shaded in Table 3-1 of Appendix K, with explanations provided by row number in the following discussion.

3.1.1 Wires Costs – Significant Variances

99 The AESO's 2019 wires costs approved forecast is based on the 2019 ISO tariff update application.[30] The specific determinations of the forecast wires cost for each TFO, shown in rows 13-24 of column (a) of Table 3-1 of Appendix K are detailed in Appendix D-5, *Wires Forecast Detail (2012 to 2019),* to this application. Variances result from TFO applications also documented in this file.

Row 13 AltaLink

100 The 2019 recorded cost for AltaLink wires is $857.8 million, which is $17.8 million (or 2.0%) lower than the 2019 forecast of $875.6 million.

101 The first reconciliation recorded costs reflect AltaLink's 2019-2021 general tariff filing on July 10, 2019.

Row 15 ATCO Electric – Isolated Generation

102 The 2019 recorded payments to the AESO for ATCO Electric isolated generation is $2.1 million, which is $2.1 million (or 49.6%) lower than the 2019 forecast of $4.1 million. The lower than expected payments result from the 2019 recorded pool price of $54.88/MWh, which is $2.64/MWh (or 4.6%) lower than the 2019 approved forecast pool price of $57.52/MWh and the interconnection of the Sheridan (2085S) substation, which connected the town of Jasper (previously served by isolated generation) to the Alberta Interconnected Electric System ("AIES") in Q2 of 2019.

Row 17 Enmax Power Corporation

103 The 2019 recorded cost for ENMAX wires is $91.7 million, which is $10.5 million (or 12.9%) higher than the 2019 forecast of $81.2 million.

104 The first reconciliation recorded costs reflect ENMAX's 2018-2020 general tariff filing on December 12, 2018.

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[28] Refer to Table 3-1 of Appendix K for details of the significant thresholds.
[29] More detail can be found in Table 3-1 of Appendix K.
[30] Proceeding 24036.

Row 19 City of Lethbridge

105 The 2019 recorded cost for the City of Lethbridge wires is $8.1 million, which is $0.9 million (or 13.2%) higher than the 2019 forecast of $7.1 million.

106 The first reconciliation recorded costs reflect the City of Lethbridge's 2018-2020 general tariff filing on October 23, 2019.

3.1.2 Ancillary Services – Significant Variances

Rows 36 to 38 Active Operating Reserve

107 2019 recorded cost for active reserves was $172.3 million, which is $66.9 million (or 28.0%) lower than the 2019 approved forecast of $239.2 million, and as further detailed in Table 3-1 of Appendix K.

108 The 2019 recorded average pool price was $54.88/MWh, which is $2.64/MWh (or 4.6%) lower than the 2019 approved forecast average pool price of $57.52/MWh. The 2019 recorded active operating reserve volumes were 5,640 GWh, which is marginally lower than the 2019 approved forecast of 5,668 GWh. Lower costs are mainly attributable to lower pool prices; lower volumes resulting from reduced import incentive and limited coal outages; and changes to offer behavior.

Rows 41 to 43 Standby Operating Reserve

109 2019 recorded cost for standby reserves was $20.3 million, which is $14.1 million (or 40.9%) lower than the 2019 approved forecast of $34.4 million and as further detailed in Table 3-1 of Appendix K.

110 In total, 2019 recorded standby operating reserve volumes were higher than the 2019 approved forecast. Standby premium volumes were 2,124 GWh, which is 197 GWh (or 10.2%) higher than the 2019 approved forecast of 1,928 GWh. Standby activation volumes were 180 GWh, which is 110 GWh (or 37.8%) lower than the 2019 approved forecast of 290 GWh. Lower costs are mainly attributable to lower volumes of activated standby spinning and supplemental reserves; and lower pool prices.

Row 46 Trading Fees and Other Related Charges

111 The 2019 recorded cost for trading fees paid to the operating reserve market operator, Alberta Watt Exchange and other related charges was a credit of $5.4 million, which is $2.4 million (or 80.4%) higher than the 2019 approved forecast credit of $3.0 million. The forecast included recoveries related to non-compliance and liquidated damages of $3.7 million compared to recorded recoveries of $6.3 million. The recorded trading costs were $0.7 million, which are comparable to the forecast.

Rows 50 to 57 Other Ancillary Services

112 The 2019 recorded cost of other ancillary services was $25.7 million, which is $17.5 million (or 40.4%) lower than the 2019 approved forecast of $43.2 million.

113 The 2019 recorded cost for load shed service for imports (LSSi) was $16.1 million, which is $16.7 million (or 50.8%) lower than the 2019 approved forecast of $32.8 million. LSSi costs are impacted by volume availability, contract prices and requirements for arming and tripping. In 2019, lower LSSi arming costs were incurred due to lower than forecast import volumes.

114 The 2019 recorded cost for Poplar Hill was $0.9 million, which is $0.8 million (or 48.9%) lower than the 2019 approved forecast of $1.7 million. The contract with Poplar Hill was terminated in July of 2019.

3.1.3 Other Industry Costs – Significant Variances

115 The 2019 recorded other industry cost was $15.4 million, which is $0.1 million (or 1.0%) lower than the 2019 approved forecast of $15.5 million.

Row 65 Regulatory Process Costs

116 The 2019 recorded cost of regulatory process costs was $1.7 million, which is $0.8 million (or 85.6%) higher than the 2019 approved forecast of $0.9 million, primarily due to the number of proceedings and related cost awards. The AESO's involvement in regulatory proceedings is not discretionary and the number and complexity of proceedings is unpredictable and therefore difficult to forecast.

3.1.4 General and Administrative Costs – Significant Variances

117 The 2019 recorded general and administrative cost was $97.1 million, which is $15.0 million (or 18.2%) higher than the 2019 approved forecast of $82.1 million.

Row 72 Staff and Benefits

118 The 2019 recorded cost of staff and benefits was $54.9 million, which is $10.9 million (or 24.8%) higher than the 2019 approved forecast of $44.0 million. The variance is related to termination costs resulting from significant staff reductions in the latter part of 2019 after AESO Management's detailed review of its staff and consulting resources. It is also due to conversion of consultants to staff positions through an initiative to retain knowledge and specialized talent within the AESO and to reduce overall costs as staff compensation is lower than the consulting-related costs.

Row 73 Contract Services and Consultants

119 The 2019 recorded cost of contract services and consultants was $3.9 million, which is $1.8 million (or 30.9%) lower than the 2019 approved forecast of $5.7 million. The variance relates to the conversion of consultants to staff positions, as well as the Government of Alberta's 2019 decisions to not continue with the Renewable Electricity Program (REP) procurements and capacity market initiatives.

Row 75 Facilities

120 The 2019 recorded cost of facilities was $2.7 million, which is $0.2 million (or 5.7%) lower than the 2019 approved forecast of $2.9 million. Forecasted facilities costs of $5.5 million were included in the AESO 2019 ISO Tariff Update[31]. This included operating leases, which were subsequently adjusted prior to Board approval to reflect the adoption of International Financial Reporting Standard 16 – *Leases* (IFRS 16), which reclassifies the costs of various facility leases to amortization of right-of-use assets and interest expense. The impact was a reduction of $2.6 million in facility costs and an increase in amortization of $2.0 million and interest of $0.4 million. The variance from the approved forecast is not significant.

Row 80 Interest

121 The 2019 recorded cost of interest was $3.5 million, which is 2.4 million (or 214.4%) higher than the 2019 approved forecast of $1.1 million. Forecasted interest costs of $0.7 million were included in the AESO 2019 ISO Tariff Update. This included operating leases, which were subsequently adjusted prior to Board approval to reflect the adoption of International Financial Reporting Standard 16 – *Leases* (IFRS 16), which reclassifies the costs of various facility leases to amortization of right-of-use assets and interest expense. The impact was a reduction of $2.6 million in facility costs and an increase in amortization of $2.0 million and interest of $0.4 million.

122 The variance from the approved forecast is due to an increase throughout the year in the average borrowing requirements in relation to changes in deferred revenue. Deferral account balances increased from a cumulative cash shortfall (receivable) of $38.4 million at December 31, 2018 to a cash shortfall (receivable) of $50.5 million at December 31, 2019. In addition, receivables of $154.1 million related to the deferral account reconciliation application for the 2017 and 2018 years were outstanding at

[31] Proceeding 24036, Exhibit X0004.01 – Appendix B, 'B-1 Rev Req', as filed November 14, 2018.

December 31, 2019. The AESO had filed an application with the AUC requesting interim settlement of this balance on September 27, 2019.[32] Following responses from impacted parties to the notice of application issued by the AUC, the AUC ruled against the AESO's request for immediate interim settlement and approved settlement of this balance effective January 1, 2020.[33]

Row 81 Amortization

123 The 2019 recorded cost of amortization cost was $20.5 million, which is $2.9 million (or 16.5%) higher than the 2019 approved forecast of $17.6 million. Forecasted amortization costs of $15.6 million were included in the AESO 2019 ISO Tariff Update[34]. This included operating leases, which were subsequently adjusted prior to Board approval to reflect the adoption of International Financial Reporting Standard 16 – *Leases* (IFRS 16), which reclassifies the costs of various facility leases to amortization of right-of-use assets and interest expense. The impact was a reduction of $2.6 million in facility costs and an increase in amortization of $2.0 million and interest of $0.4 million.

124 The variance from the approved forecast is primarily due to shifts in the timing and magnitude of projects and the dates they were placed into service.

3.1.5 Capital – Significant Variances

125 Total capital cost recorded in 2019 was $31.4 million, which is $18.0 million (or 36.4%) lower than the 2019 approved forecast of $49.4 million. At the end of 2019, capital projects were allocated among AESO business functions on a project-by-project basis, resulting in 70.7% of the total recorded capital being allocated to transmission and as a result, capital costs allocated for the AESO's transmission function were $22.2 million.

126 Although retaining its total capital budget, the AESO's portfolio prioritization process results 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 2019 recorded cost for key capital initiatives was $8.2 million, which is $20.3 million (or 71.3%) lower than the 2019 approved forecast of $28.5 million. The variance is primarily due to the July 24, 2019 announcement by the Government of Alberta that Alberta will not transition to a capacity market and will continue with an energy-only market. This resulted in several key initiatives that were not completed.

128 The 2019 recorded cost for other capital initiatives was $4.0 million, which is $1.0 million (or 19.1%) lower than the 2019 approved forecast of $5.0 million, primarily due to timing and prioritization of capital projects. Several projects were deferred for life cycle funding projects.

129 The 2019 recorded cost for life cycle funding was $7.7 million, which is $1.5 million (or 24.2%) higher than the 2019 approved forecast of $6.2 million, primarily due to timing and prioritization of capital projects. Several projects were advanced ahead of other capital initiatives.

130 The 2019 recorded cost for the System Control Centre ("SCC") Expansion was $11.5 million, which is $2.5 million (or 27.5%) higher than the 2019 approved forecast of $9.0 million due to the timing of several planned expenditures for this multi-year program.

[32] Exhibit 24910-X0002, Alberta Electric System Operator, 2017-2018 Deferral Account Reconciliation Application.
[33] Decision 24910-D01-2019, Alberta Electric System Operator 2017 and 2018 Deferral Account Reconciliation, December 11, 2019.
[34] Proceeding 24036, Exhibit X0004.01 – Appendix B, 'B-1 Rev Req', as filed November 14, 2018

3.2 2019 Revenue Variances

131 Table 3-3 of Appendix K presents AESO revenue forecast to be collected from Rate DTS and Rate FTS base rates in effect during 2019. The table also includes recorded revenue as collected through 2019 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 The base rates which were in effect during the period January 1, 2019 to December 31, 2019 were approved on a final basis in Decision 24036-D01-2018 issued on December 18, 2018. Those rates were based on the AESO's 2019 revenue requirement and 2019 forecast billing determinants for January 1, 2019 to December 31, 2019.

133 To calculate the 2019 forecast base rate revenue presented in Table 3-3 of Appendix K, the AESO applied the rates in effect during 2019 to its corresponding forecast of billing determinants for 2019. Those billing determinants were based on the 2019 DTS energy forecast in the AESO's *2017 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*.

134 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.

135 The 2019 recorded base rate revenue in column (b) of Table 3-3 of Appendix K totaled $2,046.8 million, which is $219.2 million (or 9.7%) lower than the 2019 forecast base rate revenue of $2,266.0 million. The significant base rate revenue variances for individual Rate DTS components varied from 6.0% lower than forecast to 33.6% lower than forecast, as discussed below.

3.2.1 Connection Base Rate Revenue – Significant Variances

136 The 2019 recorded connection base rate revenue was $1,835.8 million, which is $116.6 million (or 6.0%) lower than the 2019 forecast of $1,952.4 million. The decrease results from recorded volumes, on average, lower than forecast for 2019. Coincident metered demand volumes were lower than forecast by 7.1% and metered energy volumes were lower than forecast by 4.6%.

Table 3-1 2019 Recorded and Forecast Billing Determinants

Rate DTS Billing Determinant	Units	2019 Recorded	2019 Forecast	Increase (Decrease)	
				Amount	%
Coincident Metered Demand	MW-months	93,436.3	100,531.6	(7,095.3)	(7.1%)
Total Billing Capacity	MW-months	159,312.7	161,544.6	(2231.9)	(1.4%)
First (7.5×SF) MW	MW-months	36,875.0	36,579.6	295.3	0.8%
Next (9.5×SF) MW	MW-months	34,656.1	34,660.6	(4.5)	(0.0%)
Next (23×SF) MW	MW-months	43,425.9	43,602.7	(176.8)	(0.4%)
All Remaining MW	MW-months	44,355.7	46,701.7	(2,346.0)	(5.0%)
Highest Metered Demand	MW-months	120,522.7	127,416.5	(6,893.8)	(5.4%)
Metered Energy (All Hours)	GWh	59,652.3	62,524.0	(2,871.7)	(4.6%)
DTS Market Participants	customer-months	5,407.4	5,289.0	118.4	2.2%
Pool Price	$/MWh	54.88	57.52	($2.64)	(4.6%)

3.2.2 Operating Reserve Base Rate Revenue – Significant Variances

137 The 2019 recorded operating reserve base rate revenue was $202.9 million, which is $102.9 million (or 33.6%) lower than the 2019 forecast of $305.8 million. Operating reserve costs are allocated hourly to market participants under Rate DTS and Rate FTS.

3.3 2019 Deferral Account Balance

138 The deferral account balances for 2019 are summarized in Table 3-4 of Appendix K and reflect the 2019 recorded costs and revenue provided in Tables 3-1 and 3-3 of Appendix K, respectively. Table 3-4 of Appendix K also includes tariff revenue offsets, which decrease the amount of revenue that would otherwise need to be collected through Rate DTS and Rate FTS.

139 Rider C collections and refunds for 2019 maintained the annual deferral account balance at a reasonable level of less than ±2% of costs.

3.3.1 Connection Component – Significant Variances

140 An under-collection of $15.7 million (or 0.8%) existed for the connection component mainly due to an increase in recorded costs discussed in Section 3.1 above and a decrease in recorded revenue as discussed in Section 3.2 above.

4 2018 Financial Results and Deferral Account Balance

141 The AESO's 2018 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 2018 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

142 Only 2018 costs and revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application. These transactions establish the 2018 production year data for second reconciliation purposes in this application.

143 Specifically, the 2018 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 2018;
- occurred after the cut-off date of December 31, 2018 for data included in the 2018 first reconciliation; and
- occurred up to December 31, 2019.

4.1 2018 Deferral Account Second Reconciliation

144 The AESO filed a first reconciliation of its 2018 deferral accounts as part of its 2017-2018 deferral account reconciliation application submitted to the Commission on September 27, 2019. That first reconciliation included all relevant costs and revenue that occurred from January 1, 2017, to December 31, 2018 and that related to 2018. The first reconciliation deferral account balance for 2018 was a shortfall of $77.0 million as provided in Table 2-3 of Appendix K in this application. The first reconciliation balance was settled with market participants in January 2020 in accordance with the approval of the 2017-2018 deferral account reconciliation ("2017-2018 DAR decision").[35] The Commission issued Decision 24910-D01-2019 on December 11, 2019 approving the AESO's 2017-2018 deferral account reconciliation.

145 The first reconciliation resulted in $2,164.8 million in costs and $2,087.8 million in market participant revenue (including tariff revenue offsets and net Rider C collections and refunds being attributed to 2018).

146 The inclusion of additional transactions decreases the 2018 recorded costs to $2,164.5 million and the 2018 recorded total revenue, plus revenue collected or refunded through Rider C and previous deferral account reconciliation amounts, is $2,162.9 million.

4.2 2018 Cost Adjustments after First Reconciliation

147 Variances of recorded cost adjustments from the 2018 approved forecast were explained in the first reconciliation of the 2018 deferral account (for those transactions included in that first reconciliation). Only cost adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application and summarized in Table 4-1 of Appendix K.

148 One significant cost adjustment occurred during this period:

- $0.6 million increased attributed to City of Lethbridge wires costs.

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[35] Decision 24910-D01-2019, 2017-2018 Deferral Account Reconciliation, December 11, 2019.

149 The 2018 second reconciliation costs were $2,164.5 million, which is $0.3 million (or 0.01%) lower than the first reconciliation costs of $2,164.8 million.

4.2.1 Wires Costs – Significant Variances

150 The second reconciliation recorded costs were based on billings by the TFOs and accruals for 2018. Wires forecast costs by TFO discussed below are detailed in Appendix D-5 to this application.

Row 20 City of Lethbridge

151 The 2018 recorded cost for the City of Lethbridge wires is $7.7 million, which is $0.6 million (or 8.5%) higher than the 2018 forecast of $7.1 million.

152 The 2018 second reconciliation recorded costs reflect the City of Lethbridge’s 2018-2020 general tariff filing on October 23, 2019.

4.3 2018 Revenue Adjustments after First Reconciliation

153 Variances of recorded total revenue from the 2018 forecast base rate revenue were explained in the first reconciliation of the 2018 deferral account (for those transactions included in that first reconciliation). Only revenue adjustments which arise from transactions that occurred after the first reconciliation are discussed in this application. The deferral account balances for the 2018 second reconciliation are provided in Table 4-3 of Appendix K.

154 The 2018 recorded base rate revenue in column (c) of Table 4-2 of Appendix K totaled $2,071.0 million, which is $1.9 million (or 0.1%) lower than the first reconciliation of $2,072.9 million. There were no significant base rate revenue variances.

4.4 2018 Second Reconciliation Deferral Account Balance

155 Costs and base rate revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2018 second reconciliation are summarized in Table 4-3 of Appendix K, and reflect the 2018 second reconciliation of costs and revenue provided in Tables 4-1 and 4-2 of Appendix K respectively. Table 4-3 of Appendix K also includes tariff revenue offsets, which decrease the amount of revenue that would otherwise need to be collected through Rate DTS and Rate FTS.

156 The first reconciliation of the 2018 deferral account in the AESO’s 2018 deferral account reconciliation application resulted in a $77.0 million shortfall attributed to 2018, as illustrated in Table 2-4 in Section 2.3 of this application. The first reconciliation shortfall was collected from market participants in the January 2020 settlement in accordance with the 2017-2018 DAR decision. First reconciliation settlement amounts attributed to 2018 are provided in column (f) of Table 4-3 of Appendix K and restored all 2018 deferral account balances to zero based on the transactions included in the 2018 first reconciliation.

157 However, this second reconciliation includes adjustments to costs and revenue that occurred after the first reconciliation of the 2018 deferral account, as discussed in Sections 4.2 and 4.3 where explanations were provided when the resulting line item adjustments were significant.

158 The impact of all 2018 cost and revenue adjustments is a deferral account net balance increase to an under collection of $1.6 million (or 0.1% of recorded costs), compared to the zero balance that existed after settlement of amounts included in the first reconciliation.

5 2017 Financial Results and Deferral Account Balance

159 The AESO's 2017 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 2017 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

160 Only 2017 cost and revenue adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application. These transactions establish the 2017 production year data for second reconciliation purposes in this application.

161 Specifically, the 2017 cost and revenue adjustments which occurred after the first deferral account reconciliation and which are included in this third reconciliation are those transactions that:

- relate to 2017;
- occurred after the cut-off date of December 31, 2018 for data included in the 2017 second reconciliation; and
- occurred up to December 31, 2019.

5.1 2017 Deferral Account Second Reconciliation

162 The AESO filed a first reconciliation of its 2017 deferral accounts as part of its 2017-2018 deferral account reconciliation application submitted to the Commission on September 27, 2019. That first reconciliation included all relevant costs and revenue that occurred from January 1, 2017, to December 31, 2018 and that related to 2017. The first reconciliation deferral account balance for 2017 was a shortfall of $38.2 million as provided in Table 2-3 of Appendix K in this application. The first reconciliation balance was settled with market participants in January 2020 in accordance with the 2017-2018 DAR decision.

163 The first reconciliation resulted in $1,957.6 million in costs and $1,919.4 million in market participant revenue (including tariff revenue offsets and net Rider C collections and refunds being attributed to 2017).

164 The inclusion of additional transactions increases the 2017 recorded costs to $1,989.0 million and the 2017 recorded total revenue, plus revenue collected or refunded through Rider C and previous deferral account reconciliation amounts, is $1,957.0 million.

5.2 2017 Cost Adjustments after First Reconciliation

165 Variances of recorded cost adjustments from the 2017 approved forecast were explained in the first reconciliation of the 2017 deferral account (for those transactions included in that first reconciliation). Only cost adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application and summarized in Table 5-1 of Appendix K.

166 Two significant cost adjustments occurred during this period:

- $18.3 million increase attributed to AltaLink wires costs; and
- $12.9 million increase attributed to ATCO Electric wires costs.

167 The 2017 second reconciliation costs were $1,989.0 million, which is $31.4 million (or 1.6%) higher than the first reconciliation costs of $1,957.6 million.

5.2.1 Wires Costs – Significant Variances

168 The second reconciliation recorded costs were based on billings by the TFOs and accruals for 2017. Wires forecast costs by TFO discussed below are detailed in Appendix D-5 to this application.

Row 14 AltaLink

169 The 2017 second reconciliation recorded cost for AltaLink wires was $882.2 million, which is $18.3 million (or 2.1%) higher than the first reconciliation recorded cost of $863.9 million.

170 The second reconciliation recorded costs reflect the Commission Decision 24694-D01-2019 issued on September 26, 2019, regarding AltaLink's 2017-2018 general tariff application and AltaLink's 2016-2018 projects deferral account reconciliation application filed on July 7, 2019.[36]

Row 15 ATCO Electric

171 The 2017 second reconciliation recorded cost for ATCO Electric wires was $685.9 million, which is $12.9 million (or 1.9%) higher than the first reconciliation recorded cost of $673.0 million.

172 The 2017 second reconciliation recorded costs reflect ATCO Electric's 2015-2017 projects deferral account reconciliation application filed on March 25, 2019.[37]

5.3 2017 Revenue Adjustments after First Reconciliation

173 Variances of recorded total revenue from the 2017 forecast base rate revenue were explained in the first reconciliation of the 2017 deferral account (for those transactions included in the first reconciliation). Only revenue adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application. The deferral account balances for the 2017 second reconciliation are provided in Table 5-2 of Appendix K.

174 The 2017 recorded base rate revenue in column (c) of Table 5-2 of Appendix K totaled $1,952.3 million, which is $0.6 million (or 0.03%) lower than the first reconciliation of $1,952.8 million. There were no significant base rate revenue variances.

5.4 2017 Second Reconciliation Deferral Account Balance

175 Costs and base rate revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2017 second reconciliation are summarized in Table 5-3 of Appendix K, and reflect the 2017 second reconciliation of costs and revenue provided in Tables 5-1 and 5-2 of Appendix K respectively. Table 5-3 of Appendix K also includes tariff revenue offsets, which increase the amount of revenue that would otherwise need to be collected through Rate DTS and Rate FTS.

176 The first reconciliation of the 2017 deferral account in the AESO's 2017-2018 deferral account reconciliation application resulted in a $38.2 million shortfall attributed to 2017, as illustrated in Table 2-4 in Section 2.3 of this application. The first reconciliation shortfall was collected from market participants in the settlement in January 2020 in accordance with the 2017-2018 DAR decision. First reconciliation settlement amounts attributed to 2017 are provided in column (f) of Table 5-3 of Appendix K and restored all 2017 deferral account balances to zero based on the transactions included in the 2017 first reconciliation.

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[36] Proceeding 24681, AML 2016-2018 Projects Deferral Accounts Reconciliation Application, AltaLink Management Ltd.

[37] Proceeding 24375, ATCO Electric Transmission Application for Disposal of 2015-2017 Transmission Deferral Accounts and Annual Filing for Adjustment Balances, ATCO Electric Ltd.

177 However, this second reconciliation includes adjustments to costs and revenue that occurred after the first reconciliation of the 2017 deferral account, as discussed in Sections 6.2 and 6.3 where explanations were provided when the resulting line item adjustments were significant.

5.4.1 Connection Component – Significant Variances

178 The deferral account balance for connection has decreased to an under collection of $32.0 million (or 1.7% of recorded costs), primarily due to adjustments for TFO wires costs in 2017 as discussed above in Section 5.2.

179 The impact of all 2017 cost and revenue adjustments is a deferral account net balance decrease to an under collection of $32.0 million (or 1.6% of recorded costs), compared to the zero balance that existed after settlement of amounts included in the second reconciliation.

6 2016 Financial Results and Deferral Account Balance

180 The AESO's 2016 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 2016 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

181 Only 2016 cost and revenue adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application. These transactions establish the 2016 production month data for third reconciliation purposes in this application.

182 Specifically, the 2016 cost and revenue adjustments which occurred after the second deferral account reconciliation and which are included in this third reconciliation are those transactions that:

- relate to 2016;
- occurred after the cut-off date of December 31, 2018 for data included in the 2016 second reconciliation; and
- occurred up to December 31, 2019.

6.1 2016 Deferral Account Third Reconciliation

183 The AESO filed a second reconciliation of its 2016 deferral accounts as part of its 2017-2018 deferral account reconciliation application submitted to the Commission on September 27, 2019. That second reconciliation included all relevant costs and revenue that occurred from January 1, 2016, to December 31, 2018 and that related to 2016. The second reconciliation deferral account balance for 2016 was a surplus of $3.1 million as provided in Table 2-3 of Appendix K in this application. The second reconciliation balance was settled with market participants in January 2020 in accordance with the 2017-2018 DAR.

184 The second reconciliation resulted in $1,914.7 million in costs and $1,917.7 million in market participant revenue (including tariff revenue offsets and net Rider C collections and refunds, as well as prior reconciliation collections and refunds) being attributed to 2016.

185 The inclusion of additional transactions increases the 2016 recorded costs to $1,923.1 million and the 2016 recorded total revenue, plus revenue collected or refunded through Rider C and previous deferral account reconciliation amounts, decreased to $1,914.2 million.

6.2 2016 Cost Adjustments after Second Reconciliation

186 Variances of recorded cost adjustments from the 2016 approved forecast were explained in the first reconciliation of the 2016 deferral account (for those transactions included in that first reconciliation). Only cost adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application and summarized in in Table 6-1 of Appendix K.

187 One significant cost adjustment occurred during this period:

- $6.1 million increase attributed to AltaLink wires costs.

188 The 2016 third reconciliation costs were $1,923.1 million, which is $8.4 million (or 0.4%) higher than the second reconciliation costs of $1,914.7 million.

6.2.1 Wires Costs – Significant Variances

189 The third reconciliation recorded costs were based on billings by the TFOs and accruals. Wires forecast costs by TFO discussed below are detailed in Appendix D-5 to this application.

Row 14 AltaLink

190 The 2016 third reconciliation recorded cost for AltaLink wires was $840.2 million, which is $6.1 million (or 0.7%) higher than the second reconciliation recorded cost of $834.1 million.

191 The third reconciliation recorded costs reflect AltaLink's 2016-2018 projects deferral account reconciliation application filed in Proceeding 24681 on July 7, 2019.

6.3 2016 Revenue Adjustments after Third Reconciliation

192 Variances of recorded total revenue from the 2016 forecast base rate revenue were explained in the first and second reconciliations of the 2016 deferral account (for those transactions included in the first and second reconciliations). Only revenue adjustments which arise from transactions that occurred after the second reconciliation are discussed in this application. The deferral account balances for the 2016 third reconciliation are provided in Table 6-2 of Appendix K.

193 The 2016 recorded base rate revenue in column (c) of Table 6-3 of Appendix K totaled $1,815.0 million, which is $0.5 million (or 0.03%) lower than the second reconciliation of $1,815.5 million. There were no significant base rate revenue variances.

6.4 2016 Third Reconciliation Deferral Account Balance

194 Costs and base rate revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for the 2016 third reconciliation are summarized in Table 6-3 of Appendix K, and reflect the 2016 third reconciliation of costs and revenue provided in Tables 6-1 and 6-2 of Appendix K respectively. Table 6-3 of Appendix K also includes tariff revenue offsets, which increase the amount of revenue that would otherwise need to be collected through Rate DTS and Rate FTS.

195 The second reconciliation of the 2016 deferral account in the AESO's 2017-2018 deferral account reconciliation application resulted in a $3.1 million surplus attributed to 2016, as illustrated in Table 2-4 in Section 2.3 of this application. The second reconciliation surplus was refunded to market participants in the settlement in January 2020 in accordance with the approval of the 2017-2018 deferral account reconciliation. Second reconciliation settlement amounts attributed to 2016 are provided in column (f) of Table 6-3 of Appendix K, and restored all 2016 deferral account balances to zero based on the transactions included in the 2016 second reconciliation.

196 However, this third reconciliation includes adjustments to costs and revenue that occurred after the second reconciliation of the 2016 deferral account, as discussed in Sections 6.2 and 6.3 where explanations were provided when the resulting line item adjustments were significant.

6.4.1 Connection Component – Significant Variances

197 The deferral account balance for the connection component has decreased to an under collection of $8.9 million (or 0.5% of recorded costs), primarily due to adjustments for TFO wires costs in 2016 as discussed above in Section 6.2.

7 2015, 2014, 2013 and 2012 Financial Results and Deferral Account Balances

198 The AESO's 2015, 2014, 2013, and 2012 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, 2014, 2013 and 2012 revenue that is subject to retrospective deferral account reconciliation in this application is that related to Rate DTS and Rate FTS.

199 The costs and revenue discussed in this section reflect the fourth deferral account reconciliation for 2015, the fifth reconciliation for 2014 and 2013, and the sixth reconciliation for 2012. 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 detail in Appendix K.

200 In this 2019 deferral account reconciliation application, all cost and revenue transactions that occurred up to December 31, 2019 and that related to 2015, 2014, 2013 or 2012 are included. These transactions establish the production month data for each of those years for deferral account reconciliation purposes in this application.

201 The impact of the inclusion of these additional transactions is summarized in Table 7-1 of Appendix K.

202 The AESO's 2015, 2014, 2013 and 2012 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 or recorded costs from approved forecast were explained in prior reconciliations of these years' accounts.

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

204 Specifically, the 2015, 2014, 2013 and 2012 cost and revenue adjustments which occurred after the prior deferral account reconciliation and which are included in this reconciliation are those transactions that:

- relate to 2015, 2014, 2013 or 2012;
- occurred after the cut-off dates included in the previous reconciliations; and
- occurred up to December 31, 2019.

7.1 Cost Adjustments after Previous Reconciliation

205 Variances of recorded cost adjustments from approved forecast were explained in the first reconciliations of the 2015, 2014, 2013 and 2012 deferral accounts (for those transactions included in the first reconciliation). Only cost adjustments which arise from transactions that occurred after the previous reconciliations are discussed in this application and summarized in in Table 7-1 of Appendix K.

206 Five significant cost adjustments occurred during this period:

- $5.9 million decrease attributed to AltaLink wires costs in 2015;
- $16.9 million decrease attributed to ATCO Electric wires costs in 2015;
- $5.0 million increase attributed to AltaLink wires costs in 2014;
- $2.6 million decrease attributed to AltaLink wires costs in 2013; and
- $5.7 million increase attributed to ATCO Electric wires costs in 2012.

207 The 2019 deferral account reconciliation recorded costs were based on billings by the TFOs and accruals. Wires forecast costs by TFO discussed below are detailed in Appendix D-5 to this application.

Row 14, Table 7-1 of Appendix K, AltaLink

208 The 2015 fourth reconciliation recorded cost for AltaLink wires was $747.4 million, which is $5.9 million (or 0.8%) lower than the third reconciliation recorded cost of $753.3 million.

209 The 2014 fifth reconciliation recorded cost for AltaLink wires was $587.8 million, which is $5.0 million (or 0.8%) higher than the fourth reconciliation recorded cost of $582.8 million.

210 The 2013 fifth reconciliation recorded cost for AltaLink wires was $402.5 million, which is $2.6 million (or 0.6%) lower than the fourth reconciliation recorded cost of $405.1 million.

211 These reconciliation recorded costs reflect the Commission Decision 24919-D01-2019 issued on November 4, 2019, regarding AltaLink's 2014-2015 Deferral Accounts Reconciliation Second Compliance Filing.[38]

Row 15, Table 7-1 of Appendix K, ATCO Electric

212 The 2015 fourth reconciliation recorded cost for ATCO Electric wires was $630.9 million, which is $16.9 million (or 2.6%) lower than the third reconciliation recorded cost of $647.8 million.

213 The fourth reconciliation recorded costs reflect ATCO Electric's 2015-2017 projects deferral account reconciliation application filed on March 25, 2019.[39]

Row 16, Table 7-1 of Appendix K, ATCO Electric

214 The 2012 sixth reconciliation recorded cost for ATCO Electric wires was $400.4 million, which is $5.7 million (or 1.5%) higher than the fifth reconciliation recorded cost of $394.7 million.

215 The sixth reconciliation recorded costs reflect the Commission Decision 22393-D02-2019 issued on June 6, 2019, regarding ATCO Electric's Hanna Region Transmission Development Deferral Account.

7.2 Revenue Adjustments after Previous Reconciliation

216 The 2015, 2014, 2013 and 2012 revenue amounts did not vary from the previous reconciliation revenue amounts.

7.3 Deferral Account Balance

217 Costs and base rate revenue variances attributed to a year give rise to deferral account balances. The deferral account balances for 2015, 2014, 2013 and 2012 are summarized in Table 7-1 of Appendix K.

7.3.1 Connection Component – Significant Variances

218 For years 2015, 2014, 2013 and 2012, the connection charge varied significantly from the previous reconciliations due to the significant variances of wires costs explained above.

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[38] Decision 24919-D01-2019, AltaLink Management Ltd. 2014-2015 Deferral Accounts Reconciliation Second Compliance Filing.
[39] Proceeding 24375, ATCO Electric Transmission Application for Disposal of 2015-2017 Transmission Deferral Accounts and Annual Filing for Adjustment Balances, ATCO Electric Ltd.

8 Allocation to Market Participants

219 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.

8.1 Provision of Market Participant Allocation Information

220 The results of the deferral account allocation for each market participant who received system access service under Rate DTS or Rate FTS 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.

221 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.

222 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.[40] 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.

223 The AESO has determined assignees and prepared the appendices of this deferral account reconciliation application as of March 19, 2020 for charges and refunds included in the application. One assignment agreement has been executed since then.

8.2 Uncollectible Amounts

224 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 9 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.

[40] Subsection 2 of section 15, *Miscellaneous*, of the 2014 ISO Tariff.

225 For allocations resulting from the 2017-2018, 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 2019 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.

226 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.

227 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.

228 Uncollectible amounts result from market participants who terminate service and discontinue operations without assigning their system access service. A $29 charge resulting from the 2017-2018 deferral account reconciliation is allocated to a market participant no longer operating in Alberta.\ The treatment of uncollectible amounts is summarized in Table 8-1 and presented in detail in Appendix K.

229 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 8-1 Continuity of Uncollectible Amounts, $

Line No.	Description	Deferral Account Reconciliation Application				Totals
		2019	2017-2018	2016	2015 - 2009	2019 to 2009
1	Uncollectible Amounts, Opening Balance	-	-	-	$46	-
2	Uncollectible Charges (Refunds)	$29	-	-	(155)	($126)
3	Number of Market Participants	1		-	2	2
4	Adjustments – Refunds (Charges)		-	-	(155)	155
5	**Uncollectible Amounts, Closing Balance**	**$29**	**-**	**-**	-	**$29**

Note: Numbers may not add due to rounding.

9 Proposed Method of Refunding and Collecting

230 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.

231 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.

9.1 Immediate Interim Settlement

232 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.

233 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 September 2020, subject to approval by the Commission. To enable settlement on invoices issued in September 2020, the Commission would need to provide interim approval by September 3, 2020. Interim approval after that date (but before October 2, 2020) would result in settlement on invoices issued in October 2020.

234 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 9-1 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 9-1 and 9-2, Rate FTS amounts have been included with Rate DTS amounts as only one market participant (BC Hydro) receives service under Rate FTS.

235 Table 9-1 indicates that 4 Rate DTS and Rate FTS market participants will receive refunds in the amount of $0.01 million as a result of this 2019 deferral account reconciliation application, while 64 Rate DTS and Rate FTS market participants will receive charges totaling $41.6 million.

236 The total charges to market participants are $41.6 million compared to refunds of $0.01 million to market participants. The net deferral balance is a charge of $41.6 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 9-1 Distribution of Charges and Refunds Among Market Participants

Range of Refunds and Charges	Number of Participants		Total Amount, $ 000 000		Total
	DTS and FTS		DTS and FTS		
	DFO [1]	Non-DFO	DFO [1]	Non-DFO	
Refund Greater Than $0	-	4	-	$0.01	$0.01
Subtotal Refunds	**-**	**4**	**-**	**-**	**-**
Charge Greater Than $0 to $50,000	-	38	-	($0.4)	($0.4)
Charge Greater Than $50,000 to $1,000,000	2	20	($1.2)	(3.7)	(4.9)
Charge Greater Than $1,000,000 to $10,000,000	3	-	(20.2)	-	(20.2)
Charge Greater Than $10,000,000 to $20,000,000	1	-	(16.1)	-	(16.1)
Subtotal Charges	**6**	**58**	**($37.6)**	**($4.1)**	**($41.6)**
Total Refunds and (Charges)	**6**	**62**	**($37.6)**	**($4.1)**	**($41.6)**

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

237 Table 9-2 below provides distribution of charges and refunds information by removing the aggregation of settlement points by distribution system owners and direct-connect market participants with multiple system access services. Table 9-2 indicates that 19 settlement points will receive refunds totaling $0.16 million as a result of this 2019 deferral account reconciliation application, while 567 settlement points will receive charges totaling $41.8 million.

Table 9-2 Distribution of Charges and Refunds Among Settlement Points

Range of Refunds and Charges	Number of Settlement Points		Total Amount, $ 000 000		Total
	DTS and FTS		DTS and FTS		
	DFO [1]	Non-DFO	DFO [1]	Non-DFO	
Refund Greater Than $10,000 to $35,000	5	1	$0.09	$0.03	$0.12
Refund Greater Than $0 to $10,000	6	7	0.03	0.01	0.04
Subtotal Refunds	**11**	**8**	**$0.12**	**$0.04**	**$0.16**
Charge Greater Than $0 to $50,000	232	61	($5.5)	($0.6)	($6.1)
Charge Greater Than $50,000 to $100,000	123	12	(8.8)	(0.9)	(9.7)
Charge Greater Than $100,000 to $300,000	112	10	(17.9)	(1.8)	(19.6)
Charge Greater Than $300,000 to $500,000	15	2	(5.5)	(0.9)	(6.4)
Subtotal Charges	**482**	**85**	**($37.7)**	**($4.1)**	**($41.8)**
Total Refunds and (Charges)	**493**	**93**	**($37.6)**	**($4.1)**	**($41.6)**

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

238 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 2019 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 2020 deferral account reconciliation application expected to be filed in the second quarter of 2021.

10 Conclusion

239 Based on all of the foregoing, the AESO respectfully requests that the Commission approve this 2019 deferral account reconciliation application as applied for, including:

(a) the deferral account balance reconciliations for the calendar years 2019, 2018, 2017, 2016, 2015, 2014, 2013 and 2012 as presented in Sections 3 to 9 of this application;

(b) the methodology of allocating deferral account balances to market participants as presented in Section 2 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 13 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 9 of this application; and

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

240 All of which is respectfully submitted this 31st day of July 2020.

Alberta Electric System Operator

Per: *"Miranda Keating Erickson"*

Miranda Keating Erickson
Vice-President, Markets