

November 3, 2020

To Registered Participants in Proceeding 790 and Other Interested Parties

Dear Stakeholder:

Re: **AESO Intent to Request Guidance from the Alberta Utilities Commission on the Interest Calculation to be Applied in the Module C Settlement Process**

On October 15, 2020, the Alberta Electric System Operator ("AESO") published updates to Module C adjustments workbooks for 2016-2014 and the *Module C Settlement Procedure* document, together with a letter to stakeholders. The AESO has received feedback from various registered participants in Proceeding 790 on the AESO's workbook interest calculation change from monthly compounding interest ("Compound Interest") to un compounded interest ("Simple Interest"). Based on the feedback received, the AESO has determined that it is necessary to request guidance from the Alberta Utilities Commission ("Commission") regarding its direction to award and charge interest in paragraph 149 of Decision 790-D06-2017.

The remainder of this letter will explain the AESO's proposed request for guidance from the Commission, provide details for a stakeholder comment process, describe how the AESO intends to proceed with Module C settlement and describe next steps.

Proposed Request for Guidance from Commission

Several registered participants in Proceeding 790 have contacted the AESO regarding the Module C adjustments. Some parties have expressed concern that the interest calculation changed from Compounded Interest, which was used in earlier workbooks, to Simple Interest, which was used in the October 15 updated workbooks and on final statements of account issued on October 22, 2020 for the first settlement period of 2016-2014. Other parties have expressed support for the Simple Interest calculation. The AESO's rationale for changing the workbook interest calculation from Compound Interest to Simple Interest was published in the stakeholder letter dated October 15, 2020 and is reproduced in the attachment to this letter.

The interest calculation impacts all Module C adjustments, including those for the first settlement period and those for the second settlement period of 2013-2010 and the third settlement period of 2009-2006 (for which statements will be issued in the future). A Simple Interest calculation results in smaller Module C refunds and smaller Module C charges for a month, compared to a Compound Interest calculation. The impact is greater for earlier months.

After considering the views expressed by those parties who provided feedback and reviewing the record in Proceeding 790, the AESO has determined that it is necessary to request guidance from the Commission regarding the interest calculation to be applied in the Module C settlement process.

Several parties have encouraged the AESO not to delay the remaining Module C settlement process while seeking to resolve the interest calculation question. The AESO agrees that delays are not warranted. Accordingly, to allow for efficient resolution the AESO will request that the Commission provide guidance

on a narrow question (“Question”) while concurrently proceeding with the current settlement process using the Simple Interest calculation, and upon receiving Commission guidance, the AESO will determine any interest adjustments as described in the Module C Settlement Process section below. The Question the AESO proposes to seek guidance from the Commission on is:

Question: *Should the interest attributable to the monthly Module C amounts, as directed in paragraph 149 of Decision 790-D06-2017, be determined using a monthly Compound Interest calculation or a Simple Interest calculation with no monthly compounding?*

To achieve efficiency and expediency, the AESO is providing parties impacted by the Module C resettlements in Proceeding 790 with an opportunity to review and comment on the proposed Question to ensure that it is unambiguous and fully addresses the interest calculation matter. Although the AESO is seeking to achieve consensus with respect to the Question that will be submitted to the Commission, it will proceed with the Question in its currently proposed form or in a revised form based on reasonable refinements suggested by parties even if consensus cannot be achieved. The stakeholder comment process is described below.

Additional background is attached to this letter outlining the Commission’s finding in Decision 790-D04-2017 and direction to the AESO in Decision 790-D06-2017 and summarizing the information the AESO has provided to stakeholders to date on the Module C adjustments.

Stakeholder Comment Process

The AESO invites parties to provide feedback on the proposed Question by:

- (a) confirming that they support the current language in the proposed Question; or
- (b) proposing refinements or suggested edits to the proposed Question, together with reasons.

Parties may submit their feedback in writing by email to john.martin@aeso.ca on or before Tuesday, November 10, 2020. All submissions received in this process will be made public on the AESO website and may be filed with the Commission.

After reviewing and considering all recommendations received, the AESO will finalize the language to be used in the Question. The AESO will then prepare and submit to the Commission a request for guidance in response to the Question on or before Friday, November 13, 2020. The AESO will request that the Commission provide its guidance as soon as possible. In the interim, the AESO will continue to implement the current settlement process as discussed below.

Module C Settlement Process

As noted above, the AESO issued final statements of account for the Module C first settlement period of 2016-2014 on October 22, 2020. Those final statements include interest amounts determined using a Simple Interest calculation. The final statements will be cash settled on December 30, 2020, based on the amounts included on the final statements.

The AESO is in the process of publishing loss factors and Module C adjustments workbooks for the Module C second settlement period of 2013-2010 and expects to issue statements of account for those adjustments in December 2020. The AESO also currently expects to issue statements of account for the third settlement period of 2009-2006 in February 2021. The AESO will continue to include interest amounts determined using a Simple Interest calculation in Module C adjustments workbooks and final statements of account, unless the Commission issues guidance to do otherwise.

If the Commission issues guidance to use a Compound Interest calculation:

(a) Any final statements which have already been issued using a Simple Interest calculation will be cash settled as issued. The AESO will determine interest adjustments for those final statements and will include the interest adjustments on statements issued for the next Module C settlement period.

(b) Any final statements which have not been issued at the time of the Commission's guidance will be determined and issued using a Compound Interest calculation.

(c) Updates to the Module C adjustments workbooks and the *Module C Settlement Procedure* document, if necessary, will be published promptly after guidance is issued.

Next Steps

As explained above, parties may submit feedback regarding the proposed Question, in writing by e-mail to john.martin@aeso.ca on or before Tuesday, November 10, 2020.

All information related to Module C loss factors and settlement may be accessed on the AESO website at www.aeso.ca by following the path Grid ► Loss factors, in the sections "Stakeholder engagement" and "Loss factors recalculation for 2006-2016".

If you have any questions regarding the information in this letter, please contact John Martin by email at john.martin@aeso.ca or at 403-667-8040.

Respectfully,



Dennis Frehlich, P. Eng.
Vice-President, Grid Reliability

Cc: Pauline McLean, Vice-President, Law, General Counsel and Corporate Secretary, AESO
John Martin, Senior Special Projects Advisor, AESO

Attachment to AESO Intent to Request Guidance from Commission

November 3, 2020

Commission Direction to the AESO in Decision 790-D06-2017

In Proceeding 790, Complaints by Milner Power Inc. and ATCO Power Ltd. regarding the ISO Transmission Loss Factor Rule and Loss Factor Methodology – Module C, the Commission directed the AESO to recalculate loss factors for the historical years from January 1, 2006 to December 31, 2016 using a new loss factor methodology similar to the methodology approved and implemented for 2017 and later years.

In Decision 790-D04-2016 in Proceeding 790, and regarding the issue of whether interest costs should be payable or receivable for the historic years, the Commission found that “it is just and reasonable to consider the time value of money dating back to January 1, 2006 and that awarding (and charging) interest is a practical and just and reasonable method of doing so.” Further, the Commission determined that “it would be reasonable to set the rate of interest equal to the Bank of Canada’s Bank Rate plus one and one half per cent to be applied from the date on which the recalculated loss factors become effective to January 1, 2006 consistent with the guidance provided in sections 3(2)(d) and 3(2)(e) of AUC Rule 023.” [Decision 790-D04-2016, paragraphs 78 and 80]

Following those findings, in Decision 790-D06-2017, the Commission directed the AESO to “set out the interest attributed to the monthly amounts for each market participant when it issues updated statements of account for the historical line loss charges.” [Decision 790-D06-2017, paragraph 149]

Information Provided by the AESO on Module C Adjustments

The following information, except for preliminary and final statements, was published on the AESO website and announced in the AESO stakeholder newsletter following publication on the website. Announcements were also sent to registered participants by e-mail in Proceeding 790.

Date	Description
May 28-29, 2020	Recalculated loss factors for 2016 and 2015 on May 28, 2020, and recalculated loss factors for 2014 on May 29, 2020.
Jul 7, 2020	Preliminary loss charge and credit adjustments in Module C workbooks, which included interest amounts determined using a Compound Interest calculation.
Jul 15, 2020	Online loss factor technical meeting to present information on the recalculated loss factors for 2016, 2015, and 2014 and other loss factor activities, including the loss charge adjustments resulting from the loss factor recalculations and the potential process for settlement of loss charge adjustments. Interest amounts which were calculated using Compound Interest were mentioned in the presentation, although the calculation details were not presented.
Aug 14, 2020	Update to the sample of hourly load data included in the additional information for 2016 loss factors that were posted on May 28, 2020, which corrected the headers in the load data files; initial files had been inadvertently provided with incorrect headers. This update did not include or affect any interest-related information.
Sep 23, 2020	Updated loss charge and credit adjustments in Module C workbooks, which continued to include interest amounts determined using a Compound Interest calculation.
Sep 25, 2020	Forms and information for eligible parties wishing to participate in the payment plan available for repayment of Module C charges. The forms and information did not include or affect any interest-related information.

Date	Description
Oct 6, 2020	<i>Module C Settlement Procedure</i> document that explained the process that will be followed to financially settle the Module C adjustments and provided the currently expected schedule for that process. The document noted that interest would be “compounded monthly”.
Oct 7, 2020	Issuance of preliminary statements for the Module C first settlement period, which did not include interest amounts. Market participants were referred to the Module C adjustments workbooks for interest information.
Oct 15, 2020	Updated Module C loss charge and credit adjustments workbooks, which now included interest amounts determined using a Simple Interest calculation, and an updated <i>Module C Settlement Procedure</i> document, which noted that interest would be calculated “without compounding”.
Oct 15, 2020	Stakeholder letter to communicate the changes included in the updated Module C adjustments workbooks and updated <i>Module C Settlement Procedure</i> document. The information provided in the stakeholder letter in relation to the interest calculation is reproduced below.
Oct 19, 2020	Corrected Module C loss charge and credit adjustments workbooks, which continued to include interest amounts determined using a Simple Interest calculation.
Oct 22, 2020	Issuance of final statements for the Module C first settlement period, which included interest amounts determined using a Simple Interest calculation.

Information in October 15, 2020 Stakeholder Letter

The stakeholder letter published on October 15, 2020, provided information related to the interest calculation used in the updated Module C adjustments workbooks and noted in the updated *Module C Settlement Procedure* document. For the convenience of stakeholders, this information has been reproduced below.

Interest Now Calculated Without Compounding

The September 23 workbooks calculated interest on Module C adjustments from the original production month to the month of cash settlement as directed by the Commission, calculated using an interest rate equal to the Bank of Canada’s Bank Rate plus 1½% compounded monthly. Upon review of recent decisions by the Alberta Utilities Commission (“Commission”) involving interest on deferral account balances and adjustments from interim to final rates, the AESO determined that interest should be calculated on a simple (uncompounded) basis.

For example, the Commission has approved uncompounded interest calculations for

- AltaLink Management Ltd.’s 2014-2015 transmission deferral accounts reconciliation (Proceedings 22542, 24329, and 24919);
- ATCO Electric Transmission’s 2013-2014 transmission deferral accounts (Proceedings 21206 and 23114);
- ATCO Electric Transmission’s 2018-2019 general tariff application (Proceedings 23114 and 24805); and
- distribution facility owner annual applications for electric transmission access charge deferral accounts (Proceeding 3334).

The AESO has accordingly updated the Module C adjustment workbooks to reflect the Bank of Canada’s Bank Rate plus 1½% without compounding. This update is reflected in a revision to paragraph 9 of the *Module C Settlement Procedure* document.