Consultation on Deferral Account Reconciliations and Rider C

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Agenda

• Introductions (slides 1-2)
• Objectives and background (slides 3-6)
• Potential impacts of early filing of tariff updates (slides 7-13)
• Seasonality effects of quarterly Rider C (slides 14-17)
• Potential changes to Rider C (slides 18-21)
• DFO concern with operating reserve hourly flow-through charge (slides 22-23)
• Next steps and discussion (slides 24-26)

Please ask questions during presentation!
Objectives

• Stakeholders to understand relationships between annual tariff updates, Rider C, and deferral account reconciliations

• AESO to understand concerns to potentially be addressed through future changes to tariff updates, Rider C, and deferral account reconciliations

• Exploration of possible approaches to minimizing impacts of deferral account reconciliations
Why are we talking about deferral account reconciliations and Rider C?

• **Reason**: Respond to Commission directions

• During the AESO’s 2014 ISO tariff proceeding, participants submitted that the AESO should further examine the structure of Rider C to minimize imbalances between market participants

• In Decision 2014-242, the Commission directed the AESO “to discuss the related matters of annual tariff updates, deferral account reconciliation processes and Rider C design with stakeholders prior to filing its next comprehensive GTA, and to provide a report on the outcome of any such discussions, including any recommended changes (if any) within its next comprehensive GTA” [paragraph 704, page 139]
Individual refunds and charges frequently exceed 20% of deferral account balance

Number of deferral account refunds and charges to individual market participants greater than ±20% of total deferral account balance
The AESO investigated potential Rider C changes for its 2014 ISO tariff application

• The AESO considered three facets of the deferral account process may lead to individual charges and refunds being large compared to the net deferral account balance
  – Different bases for Rider C and rate components
  – Timing differences between Rider C collections and refunds compared to production-month reconciliations
  – Variances from forecasts of costs and revenues

• After investigation, the AESO concluded that there do not appear to be any straightforward changes to Rider C that would materially reduce the magnitude of individual charges and refunds that result from a deferral account reconciliation
Tariff updates, Rider C, and deferral account reconciliations are interrelated

- Regular tariff update applications should reduce the magnitude of Rider C
  - The AESO filed a 2015 tariff update in August 2015
  - The AESO plans to file a 2016 tariff update in early 2016
Revenue requirements are established on an annual basis.
Wires costs represent 70% to 80% of total annual revenue requirement.
Annual wires costs can be reasonably forecast.
Rates are not keeping pace with costs

Graph showing revenue requirement for years 2009 to 2014 with categories for Base Rates, Rider C, and Deferral Account Reconciliations.
Tariff lag results in about 20% shortfall in wires cost recovery

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<th>Test Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
<td>Wires Cost</td>
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<td>$523.7</td>
<td>$786.2</td>
<td>$1,113.4</td>
<td>$1,371.7</td>
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</thead>
<tbody>
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<td>Wires Cost Shortfall</td>
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<td>Forecast Costs for Year</td>
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<td>$786.2</td>
<td>$973.5</td>
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<td>Inherent Shortfall ($)</td>
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<td>($121.6)</td>
<td>($131.3)</td>
<td>($187.3)</td>
<td>($245.4)</td>
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<tr>
<td>Inherent Shortfall (%)</td>
<td>(9%)</td>
<td>(19%)</td>
<td>(17%)</td>
<td>(19%)</td>
<td>(22%)</td>
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- Wires costs represent most of the revenue collected through Rider C
- Wires cost shortfalls have varied from 17% to 22% over the past five years
Early filing of tariff updates should reduce amounts collected through Rider C

- Filing tariff updates to achieve an effective date of January 1 of the test year could significantly reduce the amounts collected through Rider C

- Tariff updates would need to be filed in July or August to be approved and implemented by January 1
  - Filing would be at beginning of Budget Review Process, prior to approval of AESO budget
  - Changes that occur during the Budget Review Process would be addressed in deferral account reconciliation

- Early filing may reduce accuracy of wires cost forecasts

- Update approval process may be shortened if filing template can be implemented (similar to distribution system owner transmission deferral account rider process templates)
AESO’s deferral account reconciliation model currently includes 2011-2013

- AESO will update model to include 2014
- Model may be able to be used to assess impact of early tariff updates
- Model has so far not revealed any straightforward changes to Rider C that would materially reduce the magnitude of reconciliation charges and refunds
- However, there may a seasonality effect in Rider C that may be easily addressed
Wires cost revenue exhibits seasonal patterns while costs do not.
Basing Rider C on forecast year-end balances may reduce seasonal effect

- Rider C must currently be calculated “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”

- Calculating Rider C to restore the year-end deferral account balance to zero may reduce Rider C amounts
  - AESO may be able to assess impact of change through reconciliation model

- Annual reconciliation approach may also need to be modified
  - Current approach reconciles revenues to costs on a production month basis, which ignores seasonal volume variation
Basing Rider C on year-end balances would not mitigate prior year adjustment impacts

• Prior year adjustments resulting from Commission decisions are currently recovered in one quarter
  – Such adjustments affect forecast deferral account balances at the end of the upcoming quarter

• Even if Rider C was based on year-end balances, prior year adjustments would continue to impact one or two quarters if occurring after Q2 Rider C is posted at beginning of March
  – Should balances from prior year adjustments instead be carried forward to year-end deferral account reconciliations?
Converting Rider C to a percentage basis did not have expected impact

- Rider C is a $/MWh charge or credit, by rate component
- Using the deferral account reconciliation model, converting Rider C to a percentage charge or credit, by rate component, did not have the expected effect
  - Percentage charge or credit would reflect the $/MW basis of the Rate DTS connection charge
  - Percentage charge or credit would also be consistent with impact of cost increases or decreases in a tariff update
- Converting to a percentage basis mitigated reconciliation charges and refunds to some extent, but primarily affected who received charges or refunds
  - Impacts likely limited by timing variances and variances between costs and revenues
Rider C is interim in nature

• Rider C revenues are re-allocated between months and between market participants in deferral account reconciliations

• Is interim nature of Rider C an issue?

• Should Rider C be made final and not reconciled?
  – That is, should Rider C be a prospective rider not subject to retrospective reconciliation?
Rider C is interim in nature (cont’d)

• Should Rider C be eliminated and deferral account balances dealt with solely through reconciliations after year-end?

  – Balances would need to be small as a result of early tariff updates

  – AESO would likely convert Rider C to an emergency cash call rider to be available, for example, if deferral account balances were forecast to exceed a specified year-end threshold
Matters for further exploration and potential quantification

- Impact of early tariff updates
- Impact of seasonal effects
- Impact of converting Rider C to a percentage basis
- Possibility of eliminating quarterly Rider C
- Possibility of moving to prospective Rider C
- Other matters?
DFOs have raised concern with operating reserve hourly flow-through charge

• Distribution facility owners have raised concern with difficulty in forecasting operating reserve charges
  – Results in volatile DFO deferral account balances and volatile DFO quarterly riders
  – Have suggested operating reserve component to DFOs could revert back to a percentage of pool price basis

• AESO considers the issue to primarily be whether the DFO or the AESO should hold operating reserve deferral account balances
DFOs have raised concern with operating reserve hourly flow-through charge (cont’d)

• Reverting to a percentage of pool price basis would likely still result in volatile Rider C charges to DFOs from quarter to quarter and volatile deferral account reconciliations
  – Charges would also reflect pool price volatility

• In general, rates and riders should not differentiate between DFOs and direct connect market participants
  – In particular, transmission-connected customers served through DFO should be charged similarly to direct connect market participants served by AESO

• Direct connect market participants previously expressed preference for hourly flow-through charge

• AESO is unclear of benefits of reverting to percentage of pool price basis for operating reserve charge
Next steps

- AESO to further explore impacts of early tariff updates and seasonal effects
  - Including quantification, if possible
- Based on results, AESO may also consider eliminating quarterly Rider C or moving to prospective Rider C
- Based on results, AESO may also consider converting Rider C to a percentage basis
- AESO will report results of exploration in future 2017 tariff consultation process
  - Will also report on findings in tariff application
Future applications

- AESO will file 2016 tariff update early in Q1 of 2016
- AESO expects to file 2017 tariff update in Q3 of 2016
  - Will be filed independently of 2017 comprehensive tariff application
- 2015 deferral account reconciliation application will be filed in Q2 of 2016
  - AESO proposing to “collapse” application sections for prior years with few adjustments, for efficiency in preparing and reviewing application
  - 2015 reconciliation application will follow methodology of other recent reconciliation applications
- Rider C and process changes, if any are proposed, would be part of 2017 comprehensive tariff application
Questions and discussion
For more information

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• Presentation and other consultation documents will be posted on www.aeso.ca ➤ Tariff ➤ Current Consultations ➤ 2017 Tariff
Thank you