



Alberta Electric System Operator

2019 Deferral Account Reconciliation

November 2, 2020

Alberta Utilities Commission

Decision 25768-D02-2020

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Proceeding 25768

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Eau Claire Tower

1400, 600 Third Avenue S.W.

Calgary, Alberta T2P 0G5

Telephone: 310-4AUC (310-4282 in Alberta)

1-833-511-4AUC (1-833-511-4282 outside Alberta)

Email: info@auc.ab.ca

Website: www.auc.ab.ca

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1 Decision

1. For the reasons discussed in this decision, the Alberta Utilities Commission approves the Alberta Electric System Operator's (AESO) request to settle its 2019 net deferral account shortfall with market participants, in the amount of \$41.6 million.

2 Introduction and process

2. On July 31, 2020, the AESO filed an application with the Commission requesting approval of its 2019 deferral account reconciliation (DAR) and for changes to the deferral account balances for 2018 to 2012, representing the reconciled variances arising between the actual costs the AESO incurred in providing system access service (SAS) and the forecast amounts recovered in rates charged to market participants for those years. The AESO requested approval of the determination and allocation of a \$41.6 million net deferral account shortfall.¹

3. In its application the AESO also requested approval to settle the current deferral account balance amounts on an interim and refundable basis, subject to adjustment in the final decision following the Commission's review. Interim approval was requested to facilitate immediate settlement of deferral account amounts with market participants. In this regard, the AESO stated that "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."²

4. The Commission issued a notice of application on August 4, 2020, and written submissions from parties were due by August 18, 2020. No parties responded to the notice.

5. On August 27, 2020, the Commission issued Decision 25768-D01-2020,³ approving, on an interim basis, settlement of the deferral account balances as applied for by the AESO. On the same date, the Commission set out a process for one round of information requests (IRs) to the AESO.⁴ In accordance with this schedule, the Commission issued IRs to the AESO on September 10, 2020, and the AESO provided IR responses on September 24, 2020.

6. For the purposes of this decision the Commission considers the record of the proceeding to have closed on September 24, 2020.

7. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. References in this

¹ Exhibits 25768-X0002 to 25768-X0048.

² Exhibit 25768-X0002, paragraph 233.

³ Decision 25768-D01-2020: Alberta Electric System Operator, 2019 Deferral Account Reconciliation Interim Settlement, Proceeding 25768, August 27, 2020.

⁴ Exhibit 25768-X0053.

decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to this matter.

3 Application details

8. The AESO requested approval of its determination and allocation of a \$41.6 million net deferral account shortfall. The deferral account balance results from differences between costs the AESO has incurred in providing SAS and the revenues recovered through rates charged to customers in prior periods.

9. Section 14(3) of the *Electric Utilities Act* states:

The Independent System Operator must be managed so that, on an annual basis, no profit or loss results from its operation.

10. The DAR application allows the AESO to settle annual differences between actual costs and revenue collected in providing SAS to market participants, and ensures that no profit or loss results from its operation. The DAR 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.

11. The settlement of DAR balances only applies to customers who received system access under Rate DTS (Demand Transmission Service) and Rate FTS (Fort Nelson Demand Transmission Service) during 2013 through to 2019.⁵

12. This application reflected the AESO's first reconciliation of the deferral account balance for 2019. The AESO DARs for production years 2017 to 2019 were prepared on a retrospective, annual and production year basis, and relied on the final approval granted by the Commission in Decision 22942-D02-2019⁶ to apply the revised DAR methodology for 2017 and future production years.⁷

13. This application also reflected the AESO's subsequent reconciliations for the years 2012 to 2018 deferral account balances. The DARs for years 2012 to 2018 were prepared on a retrospective, monthly and production month basis, consistent with the methodology used in all reconciliations from 2004 to 2016, as reviewed and approved by the Commission.⁸

14. The AESO requested that the Commission approve the deferral account balance reconciliations for the calendar years 2019 through to 2012 as presented in sections 3 to 7 of the application, consisting of:⁹

⁵ Exhibit 25768-X0002, paragraph 2.

⁶ Decision 22942-D02-2019: Alberta Electric System Operator, 2018 ISO Tariff Application, Proceeding 22942, September 22, 2019.

⁷ Exhibit 25768-X0002, paragraph 13.

⁸ Exhibit 25768-X0002, paragraph 14.

⁹ Exhibit 25768-X0002, paragraph 22.

- The methodology of allocating deferral account balances to market participants as presented in Section 2 and appendixes E through H of this application, for purposes of recovering and refunding outstanding variance amounts from and to market participants receiving SAS under Rate DTS or Rate FTS of the Independent System Operator (ISO) tariff.
- 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 the application.

And further and other relief as the Commission deems appropriate.

15. The AESO submitted that the application incorporates all costs paid and revenue collected by the AESO that:¹⁰

- 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.

3.1 Methodology, allocation and settlement of deferral account balances

Methodology

16. The AESO is not proposing any changes to the deferral account methodology or Rider C, the deferral account adjustment rider in the ISO tariff, in this application. The AESO noted that this application relies on the approval granted by the Commission in Decision 22942-D02-2019 to apply the revised DAR methodology for production years 2017 and onward. It also submitted that it will continue to use the applicable methodology to reconcile deferral accounts for each production year prior to 2017 as approved by the Commission and described in the deferral account application for the first reconciliation of that production year.¹¹

Allocation

17. The AESO explained that the allocation of deferral account balances and adjustments was implemented through its continued use of a software program that it developed to calculate DARs. This approach is consistent with its previous DAR applications.¹²

18. The AESO's use of deferral accounts is incorporated in the ISO tariff through Rider C, reproduced below:¹³

Applicability

1 Rider C of the **ISO tariff**, *Deferral Account Adjustment Rider*, applies to system access service provided under:

- (a) Rate DTS of the **ISO tariff**, *Demand Transmission Service*;

¹⁰ Exhibit 25768-X0002, paragraph 23.

¹¹ Exhibit 25768-X0002, paragraphs 40-41, and Exhibit 25768-X0057, AESO-AUC-2020SEP10-002.

¹² Exhibit 25768-X0002, paragraphs 77-79.

¹³ <https://www.aeso.ca/assets/documents/Rider-C-Deferral-Account-Adjustment-Rider-2018-01-01.pdf>

- (b) Rate FTS of the **ISO tariff**, *Fort Nelson Demand Transmission Service*; and
- (c) Rate PSC of the **ISO tariff**, *Primary Service Credit*.

Rider

- 2(1)** The **ISO** must recover or refund through Rider C accumulated deferral account balances which are comprised of differences between revenues and costs incurred in providing **system access service** to **market participants**.
- (2)** The **ISO** must determine Rider C for each calendar quarter as an additional percentage charge or credit that applies to each rate listed in subsection 1 above.
- (3)** The **ISO** must publish the Rider C charge or credit, including its calculation, on the **ISO** website at least thirty (30) **days** prior to the beginning of the calendar quarter in which it will apply.
- (4)** The **ISO** must calculate the Rider C charge or credit as the sum of amounts, based on available recorded and forecast values, required to restore the deferral account balance to zero (0) at the end of the calendar year in which the Rider C charge or credit will apply, or such period as determined by the **ISO** to minimize the rate effect, in each of the following rate components:
 - (a) connection charge and primary service credit;
 - (b) **operating reserve** charge;
 - (c) **transmission constraint rebalancing** charge;
 - (d) voltage control charge; and
 - (e) other system support services charge

where the **ISO** assigns revenues and costs to each rate component in accordance with the **ISO tariff** in effect during the period in which the revenue was collected or the cost was incurred.

- (5)** The **ISO** must calculate Rider C to include only transactions settled with the **ISO** that have occurred after January 1 of the calendar year in which the Rider C charge or credit will apply, although such transactions may involve amounts that relate to prior years.

Terms

- 3(1)** The **ISO** may adjust Rider C amounts collected or refunded, through a deferral account reconciliation application filed with the Commission by the **ISO**.
- (2)** The **ISO** must not add or deduct interest to or from amounts recovered or refunded through Rider C or through a deferral account reconciliation application, unless the Commission orders otherwise in specific circumstances.
- (3)** The terms and conditions of the **ISO** tariff form part of this rider.

19. The deferral account balances are allocated to individual market participants on the basis of each market participant's percentage of base rate revenue collected, the Rate DTS and Rate FTS in place during the deferral account period, and by year, month and rate component.¹⁴

20. As a result of Decision 22942-D02-2019, the deferral account balances for production years 2017 and 2018 have been allocated to individual market participants based on each participant's percentage of base rate revenue collected, offset by Rate PSC (Primary Service Credit).¹⁵

¹⁴ Exhibit 25768-X0002, paragraphs 51-57.

¹⁵ Exhibit 25768-X0002, paragraph 56.

21. 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 DARs with each market participant is subtracted or added by rate and rate component. The remaining balance is the amount of the deferral account charge or refund attributed to the market participant on a production month basis, by rate and rate component.¹⁶

Settlement

22. In its application, the AESO proposed to settle the outstanding deferral account balances through a one-time payment and collection option and, similar to past reconciliation applications, it offered a three-month payment option, including carrying charges, if the one-time payment option presented a financial burden to market participants.¹⁷

Commission findings

23. In Decision 21735-D02-2017,¹⁸ the Commission gave the following direction to the AESO in respect of its 2015 DAR application:

Nonetheless, the Commission expects the AESO to follow through on its commitment to further consult with stakeholders on this issue and directs the AESO to address whether changes to the deferral account allocation methodology and to Rider C are warranted given the concerns raised by the PS Group, as part of its next ISO tariff application.

24. In compliance with the above Commission direction, the AESO requested approval of proposed changes to its DAR methodology for production year 2017, and to Rider C and Rate PSC, effective January 1, 2018, in its 2018 ISO tariff application.¹⁹ As noted by the AESO, the Commission approved the AESO's request for the proposed changes on a final basis in Decision 22942-D02-2019.²⁰

25. In line with the findings in Decision 22942-D02-2019, the AESO explained that it had used the revised and approved DAR methodology for the production years 2017 to 2019 in the application.²¹ It also confirmed that it will continue to use the applicable methodology to reconcile deferral accounts for each production year prior to 2017 as approved by the Commission and described in the deferral account application for the first reconciliation of that production year.²²

26. The Commission has reviewed the AESO's methodology and finds that it is consistent with the methodology approved for DAR applications in Decision 22942-D02-2019. It has also reviewed the allocation of the deferral account balances and finds that it is consistent with previously approved DAR applications and with the 2018 ISO tariff.

¹⁶ Exhibit 25768-X0002, paragraph 57.

¹⁷ Exhibit 25768-X0002, paragraphs 230-231.

¹⁸ Decision 21735-D02-2017: Alberta Electric System Operator, 2015 Deferral Account Reconciliation, Proceeding 21735, March 14, 2017, paragraph 108.

¹⁹ Proceeding 22942, Exhibit 22942-X0002.01, paragraph 143, and Exhibit 22942-X0008.

²⁰ Decision 22942-D02-2019, paragraph 279.

²¹ Exhibit 25768-X0002, paragraph 13.

²² Exhibit 25768-X0002, paragraphs 40-41, and Exhibit 25768-X0057, AESO-AUC-2020SEP10-002.

27. In addition, the Commission finds the AESO's proposed settlement process to be reasonable and consistent with previously approved DAR applications.

28. Accordingly, the Commission approves the AESO's methodology, allocation and settlement of the deferral account balances.

3.2 Cost variances

29. The costs and cost variances applied for in the application are summarized in Table 1 below:

Table 1. Recorded costs and cost variances subject to assessment in the application

Component	Deferral account reconciliation				
	2019 recorded costs	2018 cost variances	2017 cost variances	2016 cost variances	2015 to 2012 cost variances
Costs paid	(\$ million)				
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

Source: Exhibit 25768-X0002, Table 2-5.

30. The AESO submitted that, where significant adjustments for 2018 or prior year costs are included in the DAR, this proceeding should be the venue for consideration of the prudence of those adjustments. However, the AESO maintained that the costs it incurred in 2018 and in prior years were previously dealt with in prior DAR proceedings and their prudence should not be reviewed again.²³

31. The AESO noted that the prudence of transmission facility owner (TFO) wires costs is assessed by the Commission as part of its approval of TFO tariff and deferral applications.²⁴ It also stated that the wires costs included in the application were based on the approach approved by the Commission in Decision 2011-275,²⁵ and updated in Decision 22093-D02-2017.²⁶

32. The AESO explained that the AESO's own administrative costs are approved by the AESO board in accordance with the *Transmission Regulation*. Once these costs are approved by the AESO board, in accordance with Section 46(1) of the *Transmission Regulation*, they must be considered to be prudent by the Commission unless an interested person satisfies the Commission otherwise.²⁷

²³ Exhibit 25768-X0002, paragraph 70.

²⁴ Exhibit 25768-X0002, paragraph 64.

²⁵ Decision 2011-275: Alberta Electric System Operator, Compliance Filing Pursuant to Decision 2010-606 and 2011 Tariff Update, Proceeding 1074, Application 1607003-1, June 24, 2011.

²⁶ Decision 22093-D02-2017: Alberta Electric System Operator, 2017 ISO Tariff Update, Proceeding 22093, April 4, 2017.

²⁷ Exhibit 25768-X0002, paragraph 65.

33. The AESO stated that ancillary services costs and line losses costs are approved by the AESO board but noted the following statement made by the Commission in Decision 2014-242:²⁸

36. ... 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.

34. With respect to its own administrative costs, the AESO submitted that its budget review and approval process, developed in consultation with market participants, includes an agreed-upon practice to be applied in circumstances where estimated costs are expected to exceed budgeted amounts. Specifically, this practice is to be applied in circumstances involving general and administrative costs and capital. 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. In summary, the AESO claimed that its management structure and approach provide an appropriate and adequate process to establish and manage the AESO's budget.²⁹

Commission findings

35. This application represents the first opportunity to consider the actual, recorded AESO revenue requirement costs for the year 2019, and the first opportunity to consider cost variances for the years 2018 through to 2012 in relation to the recorded cost amounts for those years, subsequent to the Commission's assessment in Decision 24910-D01-2019.³⁰ The Commission agrees with the AESO that a deferral account reconciliation proceeding is the proper venue to consider the prudence of AESO costs incurred with respect to 2019 and any cost variance amounts not already considered in previous deferral account reconciliation decisions related to prior years.

36. The provisions of the *Electric Utilities Act* and the *Transmission Regulation* give guidance to the Commission on the extent to which it may assess the costs and expenses incurred by the AESO. As set out by the Commission in Decision 2014-242,³¹ there are four principal categories of costs and expenses incurred by the AESO in its tariff, namely:

- the AESO's own administrative costs;

²⁸ Decision 2014-242: Alberta Electric System Operator, 2014 ISO Tariff Application and 2013 ISO Tariff Update, Proceeding 2718, Application 1609765-1, August 21, 2014, paragraph 36.

²⁹ Exhibit 25768-X0002, paragraphs 68-69.

³⁰ Decision 24910-D01-2019: Alberta Electric System Operator, 2017 and 2018 Deferral Account Reconciliation, Proceeding 24910, December 11, 2019.

³¹ Decision 2014-242, paragraph 33.

- ancillary services costs;
- transmission line losses; and
- costs related to transmission wires payable under a TFO tariff.

Each of these categories is discussed in turn.

The AESO's own administrative costs

37. The AESO's own administrative costs are defined in Section 1(g) of the *Transmission Regulation* to include: (i) transmission-related costs and expenses of the AESO pertaining to the administration, operation and management of the AESO; (ii) transmission-related costs and expenses of the AESO with respect to reliability standards and reliability management systems; and (iii) transmission-related costs and expenses required to be paid by the AESO that are not for the purposes of providing ancillary services, costs of transmission line losses, nor amounts payable under a TFO tariff.

38. As noted by the AESO, Section 46(1) of the *Transmission Regulation* limits the Commission's review of the AESO's own administrative costs to those costs that an interested party has argued are not prudent. Moreover, the onus is on the interested party, not the AESO, to satisfy the Commission that the AESO's own administrative costs are not reasonable. In addition, Section 3 of the *Transmission Regulation* addresses consultation and approval of those costs and requires that the AESO consult with market participants with respect to proposed costs to be approved by the AESO.

39. No interested person has argued that the AESO's own administrative costs were unreasonable, nor has any party indicated that the AESO has not consulted market participants properly, as required pursuant to Section 3 of the *Transmission Regulation*. Consequently, the AESO's own administrative costs, shown above in Table 1, are accepted as filed.

Ancillary services costs

40. The AESO board approves the costs for ancillary services. However, Section 3(1) of the *Transmission Regulation* requires the AESO to consult with market participants directly affected by these costs. As noted by the Commission in Decision 2014-242, there is no equivalent provision to Section 46(1) of the *Transmission Regulation* that enables an interested party to argue the reasonableness of these costs before the Commission.

41. The recovery of ancillary services costs is prescribed in Section 30(4) of the *Electric Utilities Act* and Section 48 of the *Transmission Regulation*, which state:

Electric Utilities Act

30(4) The Independent System Operator may recover the costs of transmission line losses and the costs of arranging provision of ancillary services acquired from market participants by

- (a) including either or both of those costs in the tariff, in addition to the amounts and costs described in subsection (2), in which case the Commission must include in the tariff the additional costs it considers to be prudent, or
- (b) establishing and charging ISO fees for either or both of those costs.

Transmission Regulation

48(1) A reference in the Act to “prudent” or “appropriate” in relation to the ISO’s costs for the provision of ancillary services and costs of transmission line losses means the amounts of those costs that have been approved by the ISO members.

42. The AESO has stated that ancillary services costs have been approved by the AESO board members, and no party has indicated that the AESO has failed to consult properly. The Commission accepts these amounts as prudently incurred and approves them as filed.

Transmission line losses

43. The AESO did not include the reconciliation of transmission line loss amounts in the application. This is consistent with the approach taken in previous DAR applications, given that effective January 1, 2006, the cost of transmission system losses is not longer subject to the retrospective DAR.

Costs related to transmission system wires payable under a TFO tariff

44. With respect to TFO wires-related costs and cost variances identified in Table 1 above, the AESO must pay the rates set out in the approved tariff of the owner of each transmission facility pursuant to Section 32 of the *Electric Utilities Act*. The Commission approves the costs and expenses of a TFO in the TFO’s applicable tariff application, pursuant to Section 122 of the *Electric Utilities Act*; it does not review the prudence of these expenditures in an AESO DAR application or in an AESO tariff application. Consequently, the costs and cost variances set out above in Table 1 for TFO wires-related costs are approved as filed.

3.3 Deferral account amounts

45. The AESO identified a net shortfall of approximately \$41.6 million (net of Rider C charges and refunds, and any prior DAR settlements) to be allocated to customers, composed of the following amounts:³²

- A shortfall of \$15.9 million for 2019 (first reconciliation);
- A shortfall of \$1.6 million for 2018 (second reconciliation);
- A shortfall of \$32.0 million for 2017 (second reconciliation);
- A shortfall of \$8.9 million for 2016 (third reconciliation);
- A surplus of \$22.8 million for 2015 (fourth reconciliation);
- A shortfall of \$3.7 million for 2014 (fifth reconciliation);
- A surplus of \$2.6 million for 2013 (fifth reconciliation); and
- A shortfall of \$4.9 million for 2012 (sixth reconciliation).

³² Exhibit 25768-X0002, Table 1-1.

46. A summary of the proposed reconciliation between tariff revenues collected, costs paid by the AESO, collections or refunds of Rider C, and prior year DAR collections or refunds was provided in Table 2-3 of the application, which is reproduced (in part) below:

Table 2. Summary of 2019 DAR application

Component	Deferral account reconciliation					Totals
	2019	2018	2017	2016	2015 to 2012	2019 to 2012
	(\$ million)					
Total revenue net of offsets	2,054.4	2,082.2	1,970.8	1,806.6	5,660.0	13,573.9
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 refund (collection)	105.3	-	-	-	-	105.3
Prior DAR collection (refund)	-	-	-	-	-	-
Net (shortfall) surplus	(15.9)	(1.6)	(32.0)	(8.9)	16.8	(41.6)

Source: Exhibit 25768-X0002, Table 2-3.

Commission findings

47. The Commission accepts the accuracy of deferral account amounts and the calculation of the net deferral account shortfall of \$41.6 million and notes that no market participant has objected to the application. Accordingly, the Commission approves the deferral account balances and the net deferral account shortfall amount of \$41.6 million.

4 Order

48. It is hereby ordered that:

- (1) The Alberta Electric System Operator's 2019 deferral account application is approved as filed.

Dated on November 2, 2020.

Alberta Utilities Commission

(original signed by)

Anne Michaud
Vice-Chair

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
Alberta Electric System Operator (AESO)

Alberta Utilities Commission
Commission panel A. Michaud, Vice-Chair
Commission staff C. Strasser