



February 15, 2006

Loss Factor Stakeholder Group

Re: Calibration Factor Information Session, January 17, 2006, Questions and Responses

The AESO hosted an Information Session on January 17, 2006 regarding the implementation of the Calibration Factor as required by the 2004 *Transmission Regulation*. The presentation is located at www.aeso.ca > Transmission > Loss Factors. Stakeholders were asked to send in any written correspondence on the process by January 31, 2006 and the AESO would respond on our web site.

The AESO thanks you for your continued commitment to the loss factor process. Below are the questions received and the AESO's responses.

Q1 ATCO Power:

I would prefer that the calibration factor was published later in the month and was based on more actual data. Nevertheless, a concern was raised regarding the impact that the CF might have on parties selling forward in the market. It should be possible to publish a forecast of the next expected quarterly calibration factor on a monthly basis, using the same model. The availability of this monthly forecast should largely mitigate concerns related to large quarterly swings in the CF. My assumption is that this forecast would require very little additional work.

A1 AESO:

The AESO accepts the idea that a next quarter estimated calibration factor might be helpful for participants. AESO also believes it should deliver the base Rider E value for several quarters and gain experience in the primary calculation before testing other valuable components. The AESO is open to forecasting Rider E once the main Rider E components are completed in early 2006.

Q2 Milner Power Inc:

*The AESO made the distinction between the calibration factor and the shift factor. Can the AESO confirm that the **calibration factor** applied to the first quarter of 2006 is 0% and the **shift factor** is 1.9% and is incorporated in the final normalized loss factors for 2006 posted on November 18, 2005 and the revised loss factors posted on December 12, 2005?*

A2 AESO:

Confirmed.

Q3 Milner Power Inc:

Can the AESO confirm that while the calibration factor will be calculated quarterly, the shift factor will not change throughout 2006?

A3 AESO:

Confirmed. The shift factor won't change as long as there is no loss factor recalculation through the year.

Q4 Milner Power Inc:

Is the calibration factor, like the shift factor, one common factor that is added or subtracted to the loss factors of all loss customers equally including generators, opportunity imports and exports and opportunity loads?

A4 AESO:

Confirmed. The calibration factor is a single factor that is applied to the metered volumes of those customers subject to loss factors.

Q5 Milner Power Inc:

The AESO has indicated that it proposes to recover or refund any variances in loss revenues and costs using a calibration factor that is calculated quarterly but applied over the remaining months of the calendar year. Variances that occur in the first three months are refunded or collected over the remaining nine months. Variances remaining after the second quarter are collected or refunded over the remaining six months and accumulated variances between revenues and costs at the end of the third quarter are collected or refunded over the three months remaining in the year. With this proposal, as the year progresses variances between revenue and cost are collected or refunded over shorter and shorter periods. This will likely cause increased volatility in the calibration factor as the year progresses. Since the AESO's proposal does not ensure that the accumulated variance at year end will be zero and any accumulated variances that exist at the end of December will have to be incorporated into a calibration factor for the following year, will the AESO consider applying the quarterly calibration factor over a rolling twelve month window to reduce the quarterly volatility in the calibration factor?

A5 AESO:

Section 22(1) of the 2004 *Transmission Regulation* states that the calibration factor must "ensure that the actual cost of losses is reasonably recovered...on an annual basis." The AESO interprets this as requiring recovery within a calendar year rather than on a rolling twelve month basis.

As filed in the 2006 General Tariff Application, accumulated variances at year-end will be moved to the next year. This is consistent with Section 21(2) of the *Transmission Regulation* which states, "If the actual cost of losses is over or under recovered in one year, the over or under recovery must be collected or refunded in the next year or subsequent years."

If volatility or other concerns prove to exist based on the AESO's approach, then solutions will be assessed to address them.

Q6 Milner Power Inc:

The size and volatility of the calibration factor will be impacted by forecast accuracy. To minimize both of these will the AESO consider a quarterly reforecast of losses revenue and costs to year end based on a reforecast of load, imports, exports, generation and pool price as opposed to simply appending the 2006 tariff forecast of losses volumes, generation volumes, import and export volumes, DOS load volumes and loss revenues and costs to the year to date actuals?

A6 AESO:

If volatility or other issues arise in the application of the calibration factor process, the AESO will seek to address the problem as soon as reasonable. The AESO plans to use the latest price forecast when calculating the calibration factor, as well as making a forecast projection based on actual volume indicators. The AESO is open to making changes where accuracy can be shown to be improved.

Q7 Milner Power Inc:

To understand the revenue and cost variances driving the quarterly calibration factor calculations will the AESO provide a variance report discussing variances in both price and volume for POS generation, POD load, imports, exports, DOS loads, and transmission loss volumes?

A7 AESO:

The AESO is currently focused on making the calculation of the calibration factor transparent, and will provide the detail required to calculate the quarterly calibration factor on its website. The AESO notes that price and volumes are included in reports already available on the AESO website. The AESO does not propose to provide variance analysis on an ongoing basis. The AESO will re-evaluate this position after gaining experience with the calibration factor process, and based on the size of the calibration factor as discussed in A9. The AESO will also consider variance analysis when preparing annual reconciliation's of the calibration factor Rider E.

Q8 Milner Power Inc:

Will the AESO provide a calculation quarterly of average system losses expressed as a percentage of total MW supplied for comparison to the average system losses that were forecast for 2006?

A8 AESO:

The AESO is able to provide the calculation requested. The AESO would like to focus its attention on delivering the base calibration factor information as a primary goal. Further information reporting may occur as the primary goal has been achieved to meet stakeholder's needs.

Q9 Milner Power Inc:

There is a concern for the potential size and volatility of the quarterly calibration factor. In the AESO's loss factor rule, 0.25% is considered a material change to loss factors. Will the AESO consider setting a target calibration factor in any quarter of less than 0.25%?

A9 AESO:

The AESO considers that the *Transmission Regulation* requires the calibration factor to be prospective and to adjust to the actual cost of losses on a calendar year basis (see Q5). The calibration factor will recover variances over the longest time possible within those requirements — the remaining months to the end of the calendar year. The AESO does not see any alternative treatment that would not conflict with the *Regulation*. However, the AESO agrees that a good forecast of losses will keep the Rider E level low. If Rider E becomes large the AESO will consider improvements to its forecast where possible.

Q10 AltaGas:

AltaGas Ltd. (AltaGas) has one comment on the AESO's proposed calibration factor methodology. Our comment relates to the AESO's proposal to use one calibration factor for both intra-Alberta generation and imports, exports and other interruptible transmission services. We are concerned that the proposed methodology may not be compliant with s. 22(2) of the *Transmission Regulation* which requires that the "full cost of losses required to provide this service" be recovered from customers receiving interruptible service.

"22(2) A person receiving transmission service under an interruptible service arrangement for load, import or export must pay location-based loss charges that recover the full cost of losses required to provide this service."

*We would ask that you review the proposed methodology to ensure that it is compliant with this requirement. We would appreciate hearing from you as to whether or not it is compliant and, if it is not, a course of action that will bring the losses methodology into compliance with the *Regulation*.*

A10 AESO:

The AESO interprets the *Transmission Regulation* as requiring a single calibration factor which applies to all customers who pay for system losses, based on a simple reading of section 21(1) which states that "loss factors [plural] may be adjusted by a calibration factor [singular]." The calibration factor is consistently referred to in the singular throughout the *Regulation*.

The AESO is also unsure that "actual transmission line losses" could be measured on any basis other than the total transmission system, to allow the determination of a calibration factor. In particular, measuring actual opportunity service losses would require differentiation of losses for firm and opportunity energy flows over the same lines at the same time, and the AESO is not aware of any way to complete such measurement.

The AESO therefore believes that a single calibration factor is appropriate, based both on the *Transmission Regulation* and on practical considerations.

The AESO thanks participants for their comments. At this time, the AESO will proceed with our proposed calibration factor process. The AESO will take under advisement the suggestions for a variance report, a quarterly loss factor calculation and adjusted forecasts once the base calibration factor calculation has been sufficiently vetted.

Yours truly,

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