



December 30, 2008

Re: Determination of Rider C for Q1 2009

Please be advised that the AESO has calculated the Q1 2009 Rider C and determined that the rate would include the forecasted Q1 2009 revenue and cost variances but would exclude any carry forward deferral account balances from 2008.

The AESO's Rider C is calculated each calendar quarter "to restore the deferral account balances to zero over the following calendar quarter" as stated in the Rider C rate sheet. During the first quarter of a year, Rider C has historically been determined to refund or collect any deferral account balances at the end of the preceding year plus any balances forecasted to arise during the quarter itself. Rider C amounts in Q1 have therefore historically related to two separate deferral account years. In a deferral account reconciliation application, the Q1 Rider C amounts are prorated between the two years according to the amounts originally included in the Q1 Rider C calculation.

Previous deferral account reconciliations have been filed later in the year, meaning that Q1 Rider C amounts could be included in their entirety. However, on page 27 of its 2004-2007 deferral account reconciliation application, the AESO proposed to prepare its 2008 reconciliation after initial settlement of December 2008 volumes. This would occur before collection or refund of the first quarter Rider C amounts. The AESO has considered its options and has modified its Rider C process as follows.

If the AESO continued its historical practice for determining Rider C, preparation of the 2008 reconciliation would wait until after Q1, with filing of the application likely in July. This historical approach would refund or collect 2008 deferral account balances over the period from January to March 2009, but such amounts would be subject to re-allocation between customers when the application is filed in July 2009.

Alternatively, the AESO could exclude the 2008 deferral account balances from the determination of the Q1 Rider C. The AESO would then prepare its 2008 reconciliation immediately after year-end, with filing of the application likely in April. Deferral account amounts for 2008 would not be refunded or collected until the application is filed, but would be fully reconciled at that time and would not be subject to further re-allocation between customers.

The historical practice provides earlier, but less accurate, refund or collection of the year-end balances through their inclusion in Rider C, with a final accurate reconciliation occurring later in the year. The modified approach delays the refund or collection of the year-end balances, but

involves only a single accurate reconciliation earlier in the year than under the historical practice. The AESO considers the modified approach to provide significant benefits, including:

- earlier filing of the reconciliation application (by about three months),
- avoidance of potential volatility with the less accurate Rider C refund or collection, and
- improved transparency and efficiency by eliminating the need to prorate Q1 Rider C between two deferral account years.

The AESO conducted limited informal consultation on this matter by contacting stakeholders who filed argument in the AESO's 2004-2007 deferral account reconciliation process. None raised strong objections to the proposed approach.

The AESO will therefore exclude 2008 year-end deferral account balances from its calculation of first quarter 2009 Rider C amounts.

The AESO currently forecasts the net 2008 deferral account balances to be a \$1.0 million shortfall. This deferral balance will continue to be carried by the AESO and addressed in the AESO's 2008 deferral account reconciliation application. The AESO will begin preparation of its 2008 application as soon as possible after year-end and expects to file the application in April 2009. The AESO will not include redistribution of interest in its 2008 deferral account reconciliation, as the application is being filed without excessive regulatory lag. The AESO expects to include in the application a request for approval to collect and refund the deferral account amounts as soon as practical on an interim refundable basis.

The AESO will review this approach with stakeholders as part of its planned consultation on Rider C during early 2009. In particular, the AESO will examine whether limits should be established for the net deferral account balances carried forward beyond year-end and excluded from Rider C.

If you have questions or would like to discuss this further, please contact:

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