

ALBERTA ENERGY AND UTILITIES BOARD

Calgary, Alberta

**ATCO GAS – SOUTH
A DIVISION OF ATCO GAS AND PIPELINES LTD.
GAS COST RECOVERY RATE ADJUSTMENTS**

**Decision 2001-58
Application No. 2001168
File No. 5626-47**

1 INTRODUCTION

The Alberta Energy and Utilities Board (the Board) received an application (the Application) from ATCO Gas – South (referred to herein as AGS), a Division of ATCO Gas and Pipelines Ltd., for adjustments to the Gas Cost Recovery Rate (GCRR) applicable to each of “Option A” customers and “Option B” customers. Pursuant to Decision 2001-16, dated February 28, 2001, Option A applies to AGS’s sales service customers in Rate 1, comprising mainly residential customers, and Option B applies to its sales service customers in all other rates. GCRRs are included in AGS’s rate schedules as Rider “F”, which is applicable to all sales service rates for the recovery of natural gas costs. A GCRR is ordinarily set separately for summer and winter periods. A summer period includes the months of April through October and a winter period includes the months of November through March. However, to help mitigate the impact of historically high gas prices that occurred in the 2000/2001 winter season, the GCRR applicable to Option A customers was set by Decision 2001-16 for the period January 24, 2001 to January 31, 2002.

2 THE APPLICATION

By letter dated June 11, 2001, AGS filed the Application with the Board for approval of the following proposed GCRR adjustments:

- a decrease of \$4.404/GJ for Option A customers for the period July 1, 2001 to January 31, 2002, reducing the GCRR of \$9.814/GJ approved in Decision 2001-16 to \$5.410/GJ.
- a decrease of \$2.885/GJ for Option B customers for the period July 1, 2001 to October 31, 2001, reducing the GCRR of \$7.294/GJ approved in Order U2001-062, dated March 28, 2001, to \$4.409/GJ.

AGS stated that the forward market view of gas prices has continued to decrease since it last received approvals for the GCRRs applicable to Option A and Option B and that the total of the summer and winter deferred gas account (DGA) balances was forecast to be over-recovered by \$93.3 million on October 31, 2001. AGS also proposed that the adjustment to the Option B GCRR include the recovery of the deficit in its 2000/2001 winter period DGA. AGS believed that the implementation of its proposals was the most reasonable action to take at the present time because of significant changes that may occur in determining a GCRR and DGA as a result of an upcoming decision of the Board with respect to a recent methodology proceeding.

Determination of the proposed GCRRs under Option A and Option B is set out in Appendices 1 and 2, respectively.

AGS advised that on June 5, 2001 it had distributed its proposal for the GCRR adjustments to the interested parties on its 2001 DGA/GCRR distribution list, a copy of which was provided with the Application. AGS received eight responses to its proposal and provided copies of the responses with the Application. AGS received conditional acceptances that were subject to the result of issues reviewed in recent Board proceedings from the Consumers' Coalition of Canada (CCA), the Municipal Intervenors (MI) and the Public Institutional Consumers of Alberta (PICA). Those proceedings dealt with the methodology for determining a GCRR and the unbundling of GCRR related costs currently included in a gas utility's distribution rates. The Alberta Irrigation Projects Association supported the Application.

The response received from EPCOR Energy Services (Alberta) Inc. (EESAI), a retail gas marketer, specifically disagreed with AGS's proposal, mainly on the basis that the manner in which the proposed GCRRs were set results in rates that are below the forward market prices for natural gas and thus would inhibit the development of the retail market. EESAI also suggested that a credit rider be implemented July 1, 2001, the form of which was introduced by an intervenor group in a previous hearing involving ATCO Gas – North, an affiliate of AGS, and that a one-time refund be made of any surplus balance in AGS's DGA at June 30, 2001. The credit rider effectively increases the GCRR by transferring credit amounts associated with company owned production to AGS's distribution rates. Although it did not specifically disagree with AGS's proposal, Enron Energy Services Canada Co. Ltd. (Enron), also a gas marketer, submitted comments similar to those of EESAI. A response was also received from ENMAX Corporation, which noted the comments made by Enron.

The City of Calgary (Calgary) objected to the Application, particularly AGS's proposed GCRR adjustment for Option A customers. Based on responses to information requests it received from AGS, Calgary submitted that AGS should adjust the Option A GCRR based on gas prices to the end of October 2001, the same as for the Option B. Calgary submitted that AGS should make a one-time refund of \$25.4 million, being the estimated over-recovery of gas costs from Option A customers at June 30, 2001, and increase the proposed Option A GCRR by \$0.09/GJ to \$5.500/GJ for the remainder of the 2001 summer period.

Subsequent to the filing of the Application Calgary submitted an additional letter to the Board on June 28, 2001, reiterating its position. The Board also received an objection to AGS's proposed Option B GCRR adjustment from Bentall Real Estate Services (Bentall) on June 27, 2001. Bentall was concerned with the possibility of converting to transportation service only and submitted that a lump-sum refund of any current DGA surplus should be made to customers. Alternatively, Bentall suggested that AGS make exit payments to keep customers whole should they convert to transportation service prior to October 31, 2001.

In responding to Calgary's objection, AGS submitted that its gas supply estimates reflected a forward market price on May 28, 2001 and given continuing gas price instability, making a refund and then potentially increasing the GCRR later in the summer period would not be an acceptable scenario for residential customers. AGS noted that the Board established a period in

Decision 2001-16 that extends to January 31, 2002 for Option A customers. AGS submitted that maintaining that period is the most reasonable action to currently take because the Board's pending decision on the methodology proceeding could result in significant changes to the GCRR and DGA process.

3 DGA PROCEDURES

The Application was filed in accordance with the procedures approved in previous decisions by the Board respecting AGS's DGA and the reconciliation of gas supply costs, under which customers are charged with the actual cost of gas supplies experienced by AGS. The DGA procedures have been set up by the Board to account for AGS's gas supply costs. These procedures permit recovery of AGS's gas commodity costs so as to ensure that customers pay neither more nor less than the cost of gas actually incurred by AGS. While these procedures provide that customers pay only the actual gas costs, they have the effect, also, of providing that the shareholder of AGS does not lose or gain as a result of price fluctuations in gas supply costs.

A summer/winter period GCRR is calculated by adding the balance in the DGA at the end of the previous summer/winter period to the gas costs forecast for the upcoming summer/winter period and dividing the result by the forecast summer/winter period gas sales volume. Including the DGA balance from the previous same seasonal period ensures that any cumulative under-/over-recovery from that period will be collected/refunded in the upcoming summer/winter period, if the weather is normal and actual sales equal forecast sales.

In practice, actual cumulative gas costs may vary considerably from gas cost recoveries, particularly at times when prices for natural gas experience volatility in the market place. With the objective of minimizing DGA balances, the Board has directed that, should a significant change in gas supply costs occur during a period, AGS should apply to the Board for an adjustment to the GCRR. The Board specified the tolerance level, which AGS should use to determine when to apply to adjust its GCRR, to be the greater of $\pm 3\%$ or $\pm \$2$ million, relative to the gas costs forecast for the particular period.

4 BOARD FINDINGS

The Board's statutory mandate requires that it fix just and reasonable rates for the regulated utilities under its jurisdiction. Ordinarily, the Board would require timely public notice of an application and take into account representations that it may receive from interested parties before issuing an order on a matter. However, the Board notes that AGS distributed copies of its proposal to interested parties, which included active intervenor groups that represent customers and that would normally participate in the examination process involving the setting of a GCRR. The Board considers that the distribution, in this instance, provides a useful degree of public notice. Also, the Board is aware that AGS issued a media release at the time it filed the Application to provide public notice of its proposed reduction in the GCRRs. Accordingly, the Board, pursuant to Section 50(1) of the *Public Utilities Board Act*, R.S.A. 1980, c. P-37, herein exercises its discretion to deal with the Application as if due notice had been given to all interested parties.

The Board notes the conditional acceptances made by the CCA, MI and PICA, which are intervenor groups that participate on an active basis in AGS's GCRR proceedings. The conditional acceptances received from those groups were subject to the outcome of certain unresolved issues, which have been the subject of review in its recent methodology and unbundling proceedings.

The Board has considered the disagreement with AGS's proposal by EESAI and the comments made by Enron and ENMAX. However, the Board notes that the suggestion to change the proposed GCRRs through implementation of a credit rider has also been dealt with in the methodology and unbundling proceedings. As decisions in respect of the methodology and unbundling proceedings are pending and because of logistical and time constraints otherwise required for implementation, the Board considers that making the significant changes to the method in which the GCRR is calculated is not appropriate at this time. The Board also considers that, due to the prospect of ongoing high uncertainty of gas prices, the proposal for a one-time refund of any DGA surplus balance might tend to impede rate stability at this time, particularly in respect of Option A customers.

The Board notes the objections by Calgary and Bentall. However, the Board considers that their objections to the Application should not be sustained for the same aforementioned reasons made with respect to submissions made by the gas marketers.

The Board notes that AGS's proposal to include the winter period DGA under-recovery balance for Option B in determining a summer period adjustment is a departure from the DGA procedures ordinarily followed, but concludes that it is reasonable at this time pursuant to the circumstances under which Option A and Option B evolved. Furthermore, the Board concurs with AGS's position that the volatility of the market price for gas, the impending decisions for the methodology and unbundling proceedings and maintaining general rate stability for customers are factors that make the Application reasonable in the circumstances. Therefore, the Board considers implementing the GCRR adjustments as proposed in the Application would be in the interest of both the consumers and AGS. Additionally, the Board considers that, given the significant amounts by which the total of the summer and winter DGA balances was forecast to be over-recovered without the proposed adjustments, there is urgency for dealing expeditiously with the Application.

Notwithstanding that it may assess the timing and magnitude of any future GCRR adjustments for AGS according to the findings of the aforementioned methodology and unbundling proceedings, the Board continues to expect that AGS will abide by the historical DGA tolerance guidelines until such time as they may be amended by the Board. Therefore, the Board will grant approval, on an interim refundable basis, of the proposed GCRR of \$5.410/GJ for Option A customers and of the proposed GCRR of \$4.409/GJ for Option B customers.

5 ORDER

THEREFORE, it is hereby ordered that:

For ATCO Gas – South, a Division of ATCO Gas and Pipelines Ltd.:

- (1) For sales service customers in Rate 1, a Gas Cost Recovery Rate of \$5.410/GJ shall be effective on an interim refundable basis for all consumption on and after July 1, 2001, to January 31, 2002, based on actual or estimated meter readings, unless otherwise changed by the Board.
- (2) For sales service customers in rate classes other than Rate 1, a Gas Cost Recovery Rate of \$4.409/GJ shall be effective on an interim refundable basis for all consumption on and after July 1, 2001 to October 31, 2001, based on actual or estimated meter readings, unless otherwise changed by the Board.
- (3) Rider “F”, set out in Schedule “A” attached to and forming part of this Order, is hereby fixed and approved on an interim refundable basis as the Gas Cost Recovery Rate applicable to all sales service rates effective on all metered or estimated consumption on and after July 1, 2001.

Dated in Calgary, Alberta on June 29, 2001.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

B. T. McManus, Q.C.
Presiding Member

(original signed by)

J. D. Dilay, P.Eng.
Member

(original signed by)

R. D. Heggie
Acting Member

Effective on an Interim Refundable Basis by Decision 2001-58
On Consumption On and After July 1, 2001
This Replaces Rider “F”
Previously Effective April 1, 2001

SCHEDULE “A”**ATCO GAS – SOUTH
A DIVISION OF ATCO GAS AND PIPELINES LTD.
SCHEDULE OF RATES, TOLLS AND CHARGES****RIDER “F” TO ALL SALES SERVICE RATES
FOR THE RECOVERY OF GAS COSTS**

To be applied to the energy sold to all sales service rates unless otherwise specified by specific contracts.

The recovery of Gas Costs is subject to reconciliation based on actual experienced Gas Costs as approved by the Alberta Energy and Utilities Board.

Gas Cost Recovery Rate:

For Sales Service Customers in Rate 1, the Gas Cost Recovery Rate shall be:

For the period July 1, 2001 to January 31, 2002 \$5.410 per GJ

For Sales Service Customers other than in Rate 1, the Gas Cost Recovery Rate shall be:

November 1 to March 31 \$6.496 per GJ
April 1 to October 31 \$7.294 per GJ

For Sales Service Customers other than in Rate 1, the Gas Cost Recovery Rate shall be reduced for the period:

July 1, 2001 to October 31, 2001 by \$2.885 per GJ

APPENDIX 1

ATCO GAS – SOUTH
A DIVISION OF ATCO GAS AND PIPELINES LTD.

Option A
Gas Cost Recovery Rate
Effective July 1, 2001

<u>Line</u>	<u>Description</u>	<u>Units</u>	<u>Amount</u>
1	Actual gas cost recoveries, November 1, 2000 to March 31, 2001	\$,000	420,343
2	Forecast gas cost recoveries, April 1, 2001 to January 31, 2002, without adjustment to the GCRR	\$,000	548,952
3	Actual gas costs, November 1, 2000 to March 31, 2001	\$,000	(435,459)
4	Forecast gas costs, April 1, 2001 to January 31, 2002	\$,000	(338,036)
5	Estimated prior winter period and summer period adjustments	\$,000	(1,159)
6	Projected over-recovery for the total period (sum of lines 1 to 5)	\$,000	194,641
7	Forecast sales, July 1, 2001 to January 31, 2002	TJ	44,201
8	Rate decrease required (line 6 divided by line 7)	\$GJ	(4.404)
9	GCRR previously approved	\$GJ	9.814
10	Adjusted GCRR (line 8 plus line 9)	\$GJ	5.410

APPENDIX 2

ATCO GAS – SOUTH
A DIVISION OF ATCO GAS AND PIPELINES LTD.

Option B
2001 Summer Period Gas Cost Recovery Rate
Effective July 1, 2001

<u>Line</u>	<u>Description</u>	<u>Units</u>	<u>Amount</u>
1	Actual gas cost recoveries, November 1, 2000 to March 31, 2001	\$,000	91,225
2	Forecast gas cost recoveries, April 1, 2001 to October 31, 2001, without adjustment to the GCRR	\$,000	55,957
3	Actual gas costs, November 1, 2000 to March 31, 2001	\$,000	(89,679)
4	Forecast gas costs, April 1, 2001 to October 31, 2001	\$,000	(44,127)
5	Prior winter period closing DGA balance	\$,000	5
6	Prior summer period closing DGA balance	\$,000	(357)
7	Projected over-recovery for both periods (sum of lines 1 to 6)	\$,000	13,024
8	Forecast sales, July 1, 2001 to October 31, 2001	TJ	4,515
9	Rate decrease required (line 7 divided by line 8)	\$GJ	(2.885)
10	Summer period GCRR previously approved	\$GJ	7.294
11	Adjusted GCRR (line 8 plus line 9)	\$GJ	4.409