ATCO Gas North/South

Carrying Costs Related to Natural Gas Imbalances

March 22, 2006

Alberta Energy and Utilities Board

ALBERTA ENERGY AND UTILITIES BOARD
Decision 2006-030: ATCO Gas North/South (AGN/AGS)
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Application No. 1425783

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Contents

ALBERTA ENERGY AND UTILITIES BOARD
Calgary Alberta

ATCO GAS NORTH SOUTH (AGN/AGS)
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1 INTRODUCTION

On October 26, 2005, the Alberta Energy and Utilities Board (the Board or EUB) received an application (the Application) from ATCO Gas, a division of ATCO Gas and Pipelines Ltd. (ATCO Gas or AG) requesting approval for the recovery of interest related to monthly natural gas imbalance amounts on its general ledger, which arise due to timing variations associated with the advancement or deferral of Deferred Gas Account (DGA) purchase gas expense.

In a November 29, 2005 Notice, which included preliminary Board information requests to ATCO Gas, parties were invited to register their objections or support for the Application by December 19, 2005. Should no bona fide objections be received, the Board indicated that it would proceed to process the application without further notice. The Board received letters of intervention from the Consumers Coalition of Alberta (CCA), Public Institutional Consumers of Alberta (PICA), and the Office of the Utilities Consumer Advocate (UCA). As a result, the Board established a written process to deal with the Application. ATCO Gas and the Consumers Group (CG) comprised of the Alberta Urban Municipality Association, the City of Edmonton, the CCA, PICA and the UCA filed argument and reply argument in the proceeding.

The Board received a letter dated February 15, 2006 from ATCO Gas that expressed concern with respect to certain statements made by the CG in their Reply Argument filed on February 9, 2006. ATCO Gas submitted that it must be afforded an opportunity to properly address these matters (including information requests and possibly rebuttal evidence) or, the Board should not afford these matters any weight in their deliberations.

On February 28, 2006, the Board received a letter from the CG that indicated that it had reached resolution with AG on the matters cited in AG’s February 15, 2006 letter. Subsequently, in a letter dated March 1, 2006, ATCO Gas submitted that no further process is required as it relates to the CG’s reply argument.

In a letter dated March 10, 2006, the Board indicated that it was satisfied that the issue regarding the CG’s reply argument was resolved and therefore no further process was required.

The Board considered the record with respect to the Application to be closed on March 10, 2006.

2 BACKGROUND AND PARTICULARS OF THE APPICATION

In its current processes related to administration of the DGA, ATCO Gas determines a monthly amount of imbalance energy associated with monthly variations between receipts and deliveries for ATCO Gas on the ATCO Pipelines system and the monthly variations between receipts and deliveries for customers on the ATCO Gas distribution system, which result in the advancement or deferral of gas costs under procedures previously established by the Board. The transportation and exchange imbalance is flowed-through as a charge or refund to Direct Energy Regulated Services (DERS) based on the market price applicable to that month. DERS includes this amount as a line-item in its monthly Gas Cost Flow-through Rate (GCFR) calculation. Historically, there has been no carrying cost provision associated with this procedure.

ATCO Gas proposed that commencing with the November 30, 2005 balances, it would apply an interest rate based on the Bank of Canada's Bank Rate plus 1.5% as laid out in Board Information Letter 2000-1 (IL 2000-1) to the general ledger balances of its transportation imbalance accounts for the month. If the imbalance accounts are in a receivable position, ATCO Gas would reflect an interest receivable on its balance sheet, and if the imbalance accounts are in a payable position, ATCO Gas would reflect an interest payable on its balance sheet. These interest adjustments would in turn be flowed through to Direct Energy each month. ATCO Gas would add any interest receivable to the invoice charged to Direct Energy with respect to DGA charges, and it would deduct any interest payable to the invoice charged to Direct Energy. Direct Energy would in turn incorporate these amounts into their next GCFR Application. This process would be repeated for each month end balance related to the transportation imbalance accounts.

ATCO Gas proposed that this process remain in place until such time as ATCO Gas has implemented its Load Balancing Deferral Account as proposed in its Retailer Service Application 1411635, which is currently before the Board. ATCO Gas considered that, although the proposed carrying costs had not been previously utilized, they are appropriate now as a result of recent natural gas price increases and market volatility, which could result in significant exposure to both customers and shareholders. ATCO further noted that, while the Retailer Service application may result in changes that may replace this proposed adjustment, it considered that implementation of procedures associated with the Retailer Service application will not occur until late 2007 or early 2008.

ATCO Gas indicated that while regulated rate sales customers, via the DGA, currently remain the residual shipper on ATCO Gas and ATCO Pipelines systems, an evolution of procedures is occurring and noted that ATCO Pipelines is expected to assume responsibility for its transmission transportation imbalances when its load balancing process is implemented in early 2006.[1] ATCO Gas suggested that when this occurs, the lifetime-to-date transmission transportation and exchange imbalances energy would be reversed and removed from the DGA. However, ATCO considered that the regulated rate customers through the DGA would continue as the residual shipper on the ATCO Gas distribution system until ATCO Gas' Retailer Service is implemented, so distribution transportation imbalances associated with Rate 11 and Rate 13 would continue to be reported in the DGA.

ATCO Gas suggested an alternative to the application of carrying costs to the imbalance accounts would be to remove the effect of imbalances from the GCFR today. The effect of this (as described more fully in BR-AG-2(a)) would be to eliminate the shifting of a portion of the Total Gas Cost recovery from the current month to subsequent month(s) (for imbalances draft) or from a future month(s) to the current month (imbalances pack). ATCO Gas considered that the

[1] Reference Orders U2005-221 and U2005-261 dealing with ATCO Pipelines settlements respecting daily customer account balancing and load balancing, respectively

only difference between removing the effect of imbalances from the GCFR today versus upon the implementation of account and load balancing processes for ATCO Pipelines and ATCO Gas is the amount of imbalance in place at the time of removal.

3 VIEWS OF THE BOARD

The Board has assessed the Application and the concerns expressed by the CG, who considered that the Application should be rejected. The Board considers that the key issues to be addressed include:

- whether evolving circumstances warrant the administration of carrying costs, and
- the appropriate cost allocation if carrying costs are determined to be warranted with regards to monthly gas imbalances on ATCO Gas' ledger.

The Board notes that the CG argued that ATCO Gas should have included in its 2005-2007 General Rate Application (GRA) that resulted in Decision 2006-004,[2] dated January 27, 2006, any concerns or issues regarding imbalances and proposed carrying costs or changes in its necessary working capital in that proceeding. The CG submitted that a change in natural gas prices was not a satisfactory reason to change the working capital requirements or revenue requirement of AG outside of a General Rate Application. ATCO Gas responded to this position by arguing that a failure to include a request for carrying charges in the GRA should not be decisive of the matter. In today's marketplace, significant gas price volatility and higher gas prices means that on a monthly basis ATCO Gas, and/or customers, might be exposed to carrying significant DGA dollars related to the valuation of imbalances. Therefore, whether or not ATCO Gas should have included a request for carrying charges in its GRA is secondary to whether carrying costs associated with imbalances during a period of high gas price volatility was appropriate. The Board observes that while natural gas prices experienced a significant spike at the time that ATCO Gas filed the Application, prices have declined significantly through the 2005/2006 winter period. Nonetheless, the Board does not consider this current price reduction diminishes the potential concern expressed by ATCO Gas, rather it may serve to substantiate the claim of market volatility.

The Board considers that the circumstances of higher gas prices and price volatility warrant the inclusion of carrying cost provision in the imbalances established by ATCO Gas for their DGA administration. The Board is of the view that administration of carrying costs as provided in IL 2000-1 administered on both positive and negative monthly balances would provide a balance of fairness to both customers and ATCO shareholders.

With regard to which parties should be responsible for the carrying costs, the Board notes the CG perspective that carrying costs associated with energy imbalances, if allowed by the Board should not be assigned to the regulated rate supply customers as proposed by ATCO Gas, but should be allocated to all customers, particularly with respect to energy imbalance costs assessed by AP. ATCO Gas noted that this allocation would be addressed as part of the larger ongoing processes relating to customer account balancing and load balancing on both ATCO Gas and ATCO Pipelines.

[2] ATCO Gas 2005/2007 GRA – Phase I General Rate Application

The CG argued that regulated supply customers should not ultimately be responsible for the imbalance costs of other users of the AP system and that unrelated imbalance and carrying costs ideally should remain at the AP level and not passed down to the AG regulated supply customers. Further, the Board notes that ATCO Gas was generally in agreement that it is no longer appropriate for regulated supply customers to be responsible for the imbalance costs of the ATCO Pipelines systems, and that the cost allocation procedures should ultimately reside with the parties causing them.[3] Order U2006-006,[4] dated January 16, 2006, dealt with the Board's determinations concerning daily account balancing and load balancing on the AP system, the Board stated that:

> the Board continues to remain concerned with regard to the appropriate administration of load balancing costs and notes that an indefinite continuation of status quo arrangements would result in the default supply provider (DSP) customers continuing to absorb the entire load balancing requirements on both the ATCO transmission and distribution systems.[5]

The Board notes that efforts are underway that would ensure that customers be responsible for imbalance costs that they cause through significant metering and SCADA used to separate the AP and AG systems. Specifically, ATCO Pipelines is moving toward the Implementation of Customer Account Balancing Stage 1 and Load Balancing procedures, as established in settlements respectively approved in Orders U2005-221 and U2005-261,[6] anticipated to be concurrently implemented not later than April 1, 2006. In the event that parties were unable to reach agreement under the terms of the settlements to facilitate an April 1, 2006 implementation of Stage 1 of customer account balancing and load balancing on ATCO Pipelines, the Board directed ATCO Pipelines to submit an application to the Board to reconcile the disagreement not later than March 1, 2006.[7] Since the Board has not heard from ATCO Pipelines by March 1, 2006, the Board expects that all non-AG imbalance charges related to ATCO Pipelines will no longer flow through to AG after April 1, 2006 and therefore will not attract carrying charges. Further all AP imbalance charges with respect to ATCO Gas imbalances will continue to be charged to regulated rate customers pending the outcome of the Retailer Service application (Application 1411635). The Board considers that this referenced implementation of the ATCO Pipelines customer account balancing and load balancing procedures will provide a positive step towards administering imbalances on ATCO Pipelines such that any producer and industrial shipper imbalances on ATCO Pipelines will be administered in a fashion that more effectively controls potential cross-subsidization.

The Board recognizes that the default supply customers retain cost responsibility for all ATCO Gas load balancing requirements until such time as the fundamental concepts established by the Board in Decision 2005-081[8] are implemented, pending completion of Phase 2 of the ATCO Gas Retailer Service application.

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3 AG Reply Argument, p. 2/3

4 Order U2006-006, dated January 16, 2006, ATCO Pipelines Customer Account Balancing Implementation Process

5 Order U2006-006, p. 4

6 Order U2005-221, dated May 31, 2005 ATCO Pipelines Daily Customer Account Balancing Part A; and Order U2005-261, dated June 25, 2005, ATCO Pipelines Customer Account Balancing - Part B: Load Balancing

7 Order U2006-006, p. 4

8 Decision 2005-081, dated July 26, 2005 - ATCO Gas Retailer Service and Gas Utilities Act Compliance Phase 2 Part A

The Board notes that ATCO Gas proposed an alternative approach wherein it would remove the valuation of imbalances from the GCFR process now. In this case, purchase gas expense would be recovered as actually incurred without further adjustment to advance or delay the recovery of purchase gas expense based on imbalances valuation. ATCO Gas suggested that this same adjustment will be required at the time of the implementation of account balancing and load balancing rules for each of ATCO Gas and ATCO Pipelines. While this alternative may have future merit, the Board considers it premature at this time as procedures for customer account balancing and load balancing on both ATCO Pipelines and ATCO Gas are still in a state of evolution and assessment.

After assessing all of the above, the Board considers allowing carrying costs to be applied to monthly natural gas imbalance amounts effective April 1, 2006 to be appropriate. Based on IL 2000-1, the Board approves carrying costs to be applied to monthly imbalances based on the Bank of Canada Bank Rate plus 1.5%. The Board expects that DERS' GCFR will reflect allowed imbalances that include carrying costs in subsequent months. The Board anticipates that the procedures will be reviewed, with further consideration of the alternative process discussed by ATCO Gas, later within the ATCO Gas Retailer Service Phase 2 process.

The Board anticipates that DERS will continue reporting the allowed imbalances, including carrying costs from ATCO Gas in their subsequent monthly GCFR applications.

4 ORDER

IT IS HEREBY ORDERED THAT:

(1) Each of AGN and AGS shall apply carrying costs, calculated in accordance with IL 2000-1, to be applied on monthly natural gas imbalance amounts on its general ledger which arise due to timing variations associated with the advancement or deferral of Deferred Gas Account purchase gas expense, effective April 1, 2006.

Dated in Calgary, Alberta March 22, 2006.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

Gordon J. Miller
Member

(original signed by)

J. I. Douglas, FCA
Member