



ATCO Gas

2003-2004 General Rate Application Phase II
Part 1 - 2003-2004 Final Rates

June 27, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-062: ATCO Gas
2003-2004 General Rate Application Phase II
Part 1 - 2003-2004 Final Rates
Application No. 1416346

June 27, 2006

Published by

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Calgary Alberta

**ATCO GAS
2003-2004 GENERAL RATE APPLICATION
PHASE II
PART 1 - 2003-2004 FINAL RATES**

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Application No. 1416346**

1 INTRODUCTION

The Alberta Energy and Utilities Board (Board) received an application (Application) from ATCO Gas on August 31, 2005 for the approval of a 2003-2004 General Rate Application (GRA) Phase II. The Application requested approvals in relation to the following general topics:

- approval of the rates charged in 2003 and 2004 as final, utilizing placeholders for outstanding costs
- use of a deferral account with respect to Transmission Service charges commencing January 1, 2007
- Terms and Conditions of Service (T&Cs)
- establishment of concepts and principles, including the notion of uniform North and South distribution service rates, to be used to develop rates for the 2005-2007 GRA Phase II leading to rates effective January 1, 2007.

The Board issued Notice of the Application on September 16, 2005 and requested ATCO Gas to provide further input regarding an appropriate process for the various matters addressed in the Application. In a letter dated September 30, 2005, ATCO Gas noted the Board's desire to conduct more efficient and cost effective processes to administer applications and from that perspective ATCO Gas considered it to be effective to utilize a series of technical meetings to sequentially present information for each of the above-mentioned topic areas. After soliciting comments from interested parties, the Board established a process, in a letter of October 21, 2005, to advance the Application utilizing technical meetings. The Board appreciates the initiative of ATCO Gas, and the co-operation of interested parties, in facilitating this somewhat innovative process.

In a letter dated February 2, 2006, ATCO Gas requested Board approval to deal with the topic of finalizing the 2003-2004 rates using an expedited written process. This approach had been agreed upon by participants in the technical meetings, who were satisfied that they had received all the information required to establish their positions. The balance of the Application topics were agreed to be subsequently addressed via further technical discussions. The Board approved the process for an expedited module dealing with final approval of 2003-2004 rates in a letter of February 9, 2006. The module dealing with final approval of 2003-2004 rates is the topic of this Part 1 Decision. The balance of the topics in the Application will be addressed in subsequent decisions following the completion of technical meetings and additional Board process steps.

2 BACKGROUND

The Board issued Decision [2004-047](#)¹ on June 15, 2004 regarding the ATCO Gas 2003/2004 Phase I GRA which approved, pending further adjustments arising from anticipated subsequent processes, an ATCO Gas 2003 revenue requirement of \$194.538 million (South) and \$198.145 million (North) and a 2004 revenue requirement of \$202.424 million (South) and \$205.197 million (North).

On May 3, 2005, the Board issued Decision [2005-039](#),² which dealt with the impact on the 2003/2004 revenue requirement of the transfer of the ATCO Gas retail function to Direct Energy Regulated Services, as well as the customer care volume forecasts for services provided by ATCO I-Tek Business Services Ltd., formerly ATCO Singlepoint, (ITBS) for 2003 and 2004. In that decision, the Board directed ATCO Gas to update the Board with respect to a 2003/2004 GRA Phase II proceeding.

In a compliance filing related to Decision 2005-039, ATCO Gas included comments suggesting that it considered a 2003/2004 GRA Phase II proceeding would be appropriate. This compliance filing was dealt with in Order [U2005-307](#)³ which was issued by the Board on August 18, 2005. That Order established 2004 ATCO Gas revenue requirements of \$198.058 million for the South and \$196.184 million for the North. In that Order, the Board indicated it would await an ATCO Gas Phase II filing before making any determinations with respect to the 2003/2004 GRA Phase II. As a result, ATCO Gas filed this Application.

In the Application ATCO Gas proposes to demonstrate that the rates charged in 2003 and 2004 were fair and reasonable rates which ought to be approved as final. Moreover, ATCO Gas considers that the Application would provide an appropriate forum to establish principles that could be used for the determination of final rates for the 2005-2007 GRA Phase II process. ATCO Gas indicated its intention to file an application to commence this process subsequent to finalization of the 2005-2007 GRA Phase I process, which is currently underway. ATCO Gas considers that this approach would streamline the subsequent 2005-2007 Phase II rate setting application process, thereby allowing rates and procedures to be established in alignment with costs in advance of January 1, 2007.

The Board considers that the record for this portion of the Application closed on April 7, 2006, with the receipt of argument.

3 ISSUES

The Board considers it appropriate to first review the overall collection of revenue in the 2003-2004 time period as compared to the approved revenue requirement in order to assess the degree to which collections match approved costs. Thereafter, the Board will consider whether or not the allocation of approved costs among rate classes is appropriate.

¹ Decision 2004-047 – ATCO Gas 2003/2004 General Rate Application Second Compliance Filing (Application 1346376) (Released: June 15, 2004)

² Decision 2005-039 – ATCO Gas 2003/2004 GRA – Impact of the Retail Transfer and ITBS Volume Forecast (Application 1355457) (Released: May 3, 2005)

³ Order U2005-307 – ATCO Gas 2003/2004 GRA Impact of the Retail Transfer Compliance Filing Pursuant to Decision 2005-039 (Application 1403730) (Released: July 26, 2005 - Errata released: August 18, 2005)

In a Phase II cost allocation process, the key tool is a cost of service study (COSS). A COSS should be designed to reflect as closely as possible the cost to serve a rate class and should not be fettered by other considerations. If the COSS proves to be robust, the Board has generally considered it to be appropriate to approve a rate design that achieves revenue to cost ratios within a target range of 95% to 105%. However, the Board may approve rates that vary from the target range after a consideration of other rate design criteria, in order to take into account non-cost issues.

The Board refers to Professor Bonbright's criteria or rate structure attributes⁴ which were summarized and commented on by the Board in Decision U96055⁵ in the following words:

The Board agrees with parties that the basic attributes of an appropriate rate design include simplicity, understandability and public acceptability; freedom from controversy; effectiveness in achieving revenue sufficiency and in providing revenue and rate stability; fairness in the apportionment of total costs and avoidance of undue discrimination; and the encouragement of efficiency. The weight to be given to each of these characteristics will depend largely on the desired balance between various goals, objectives and interests. The Board does not believe that there exists a rate design which will accommodate all interests and satisfy each and every individual shipper.

Professor Bonbright acknowledged, however, that his list of criteria is ambiguous, overlapping and fails to offer any rules of priority in the event of conflict.⁶ There is a need to strike a balance in order to meet the interests of all stakeholders. The Board also recognizes that the circumstances for each application are unique and therefore, the weighting and prioritization for the criteria may vary for each application.

3.1 2003-2004 Revenue Collection

AUMA/Edmonton noted that ATCO Gas recovered all of its revenue requirements for each of the test years for both North and South zones through rates and riders that were in place over that period, subject only to some placeholders related to Information Technology and Customer Care and Billing costs which will be determined through ongoing benchmarking exercises.

Tables 1 and 2 below summarize the 2003 and 2004 ATCO Gas revenue requirements and forecast revenue collections for ATCO Gas North and South, respectively.

⁴ *Principles of Public Utility Rates* (2ed), James C. Bonbright, Albert L. Danielsen and David R. Kamerschen Public Utilities Reports, Inc., 1988 at pages 383-384

⁵ Decision U96055 Nova Gas Transmission Ltd. 1996 General Rate Application – Phase II (File 1600-3) (Released: June 12, 1996) at page 24. Also Decision 2004-079 – ATCO Pipelines 2004 General Rate Application – Phase II, (Application 1315997) (Released: September 24, 2004) at page 50

⁶ *Principles of Public Utility Rates* (2ed), James C. Bonbright, Albert L. Danielsen and David R. Kamerschen Public Utilities Reports, Inc., 1988, page 384

Table 1. ATCO Gas North Revenue Requirement and Forecast Revenue Generated

2003	(\$*1000)
2003 Base Rate Revenue Requirement ⁷	198,142
2003 revenue on existing rates ⁸	171,543
2003 revenue on interim rate increase approved in Decision 2002-115	14,980
2003 related rider revenue approved in Decision 2004-047 ⁹	11,622
Revenue subtotal	198,145
2003 Revenue Shortfall (Surplus) ¹⁰	(3)
2004	
2004 Base Rate Revenue Requirement ¹¹	196,184
2004 revenue on existing rates ¹²	168,349
2004 revenue on interim rate increase approved in Decision 2002-115	15,198
2004 related rider revenue approved in Decision 2004-047 ¹³	12,936
Revenue subtotal	196,483
2004 Revenue Shortfall (Surplus) ¹⁴	(299)

As shown in Table 1 above, the Board notes that the ATCO Gas North revenue generated in association with each of 2003 and 2004 is aligned with the revenue requirement, with the exception of the respective surplus amounts of \$3,000 and \$299,000. Order U2005-307 approved these amounts to be carried forward in deferral accounts pending the final reconciliation of outstanding 2003/2004 placeholder amounts.

Accordingly, the Board is satisfied that the 2003 and 2004 revenue collection balances appropriately with the revenue requirement for ATCO Gas North, pending final reconciliation of the outstanding 2003/2004 GRA placeholder amounts associated with ATCO I-Tek and ITBS deferral accounts as directed in Decision 2005-039.

⁷ From Schedule 4.1-C North Retail Transfer June 3, 2005 addressed in Order U2005-307

⁸ From Schedule 4.1-C North Retail Transfer June 3, 2005 addressed in Order U2005-307

⁹ Recovered through rider on July 1-December 31, 2004 consumption

¹⁰ Determined as immaterial in Order U2005-307 and approved to be carried forward in a deferral account pending finalization of outstanding 2003/2004 placeholders

¹¹ From Schedule 4.1-C North Retail Transfer June 3, 2005 addressed in Order U2005-307

¹² From Schedule 4.1-C North Retail Transfer June 3, 2005 addressed in Order U2005-307

¹³ Recovered through rider on July 1-December 31, 2004 consumption

¹⁴ Determined as immaterial in Order U2005-307 and approved to be carried forward in a deferral account pending finalization of outstanding 2003/2004 placeholders

Table 2. ATCO Gas South Revenue Requirement and Forecast Revenue Requirement

2003	(\$*1000)
2003 Base Rate Revenue Requirement ¹⁵	194,538
2003 revenue on existing rates ¹⁶	177,594
2003 revenue on interim rate increase approved in Decision 2002-115	10,009
2003 related rider revenue approved in Decision 2004-047 ¹⁷	6,935
Revenue subtotal	194,538
2003 Revenue Shortfall (Surplus)	0
2004	
2004 Base Rate Revenue Requirement ¹⁸	198,058
2004 revenue on existing rates ¹⁹	175,533
2004 revenue on interim rate increase approved in Decision 2002-115	10,159
2004 related rider revenue approved in Decision 2004-047 ²⁰	8,308
2004 related rider revenue approved in Order U2005-307 ²¹	4,058
Revenue subtotal	198,058
2004 Revenue Shortfall (Surplus)	0

As shown in Table 2 above, the Board notes that the ATCO Gas South revenue generated in association with each of 2003 and 2004 is aligned with the revenue requirement without variation.

Accordingly, the Board is satisfied that the 2003 and 2004 revenue collection balances appropriately with the revenue requirement for ATCO Gas South, pending final reconciliation of the outstanding 2003/2004 GRA placeholder amounts associated with ATCO I-Tek and ITBS deferral accounts as directed in Decision 2005-039.

3.2 Cost Allocation among Rate Groups

Tables 3 and 4 provide a breakdown of the revenue generated by ATCO Gas by rate group for each of the North and South during 2004 for purposes of examining the relationships between costs and revenues for rate groups. The tables utilize 2004, as traditionally the final year of a GRA test period is considered when examining the alignment between costs and revenues when testing whether any changes to rates may be appropriate in the future. In this regard, the Board considers that it is noteworthy, as emphasized by Calgary, that it would generally be expected and desirable that a utility would be filing its Phase II rate application at an early enough time to facilitate an assessment and Board decision to allow any changes in rates to be implemented within the test period. While ATCO Gas was unable to submit its GRA Phase II application within the 2003-2004 test period for various reasons, the Board does note that ATCO Gas has proposed a process for the balance of this Application proceeding that will endeavour to mitigate those timing issues in its subsequent 2005-2007 GRA Phase II application, in an effort to implement any rate adjustments in the final year of that test period.

¹⁵ From Schedule 4.1-E South Retail Transfer June 3, 2005 addressed in Order U2005-307

¹⁶ From Schedule 4.1-E South Retail Transfer June 3, 2005 addressed in Order U2005-307

¹⁷ Recovered through rider on July 1-December 31, 2004 consumption

¹⁸ From Schedule 4.1-E South Retail Transfer June 3, 2005 addressed in Order U2005-307

¹⁹ From Schedule 4.1-E South Retail Transfer June 3, 2005 addressed in Order U2005-307

²⁰ Recovered through rider on July 1-December 31, 2004 consumption

²¹ Recovered through rider on August 1-December 31, 2005 consumption

Table 3. ATCO Gas North Revenue Generated

2004	(\$*1000)
Rate 1/11	165,824
Rate 3	14,320
Rate 13	3,796
Subtotal rate revenue	183,940
Income credits	8,586
COS to DGA	719
One time recovery of hearing costs	2,900
One time recovery of reserve costs	338
Revenue shortfall (surplus)	(299)
Total	196,184

Table 4. ATCO Gas South Revenue Generated

2004	(\$*1000)
Rate 1/11	163,562
Rate 3	11,757
Rate 5	908
Rate 13	7,081
Subtotal rate revenue	183,308
Income credits	5,443
Income credits - storage	5,187
COS to DGA	720
One time recovery of hearing costs	3,400
Total	198,058

In Decision 2003-108²², the Board directed ATCO Gas to include the last approved cost of service methodology approved in Decision 2000-16²³ as a base case when filing its 2004 COSS. In this Application, ATCO Gas provided its cost of service analyses consistent with the directed methodology in Tab A and Tab B to the Application. Based on the Decision 2000-16 methodology, assessments comparing revenue to the cost allocated to each rate class can be examined as shown for ATCO Gas North and South in Tables 5 and 6, respectively.

Table 5. ATCO Gas North 2004 Revenue to Cost Ratios Using Decision 2000-16 Methodology

Rate Group	Revenue (\$*1000)	Cost ²⁴ (\$*1000)	Revenue/Cost Ratio (%)
Rate 1/11	165,824	169,045	98
Rate 3	14,320	11,624	123
Rate 13	3,796	2,972	128
Total	183,940	183,641	

²² Decision 2003-108, ATCO Gas 2003 Gas Rate Unbundling released December 18, 2003, page 28

²³ Decision 2000-16 Canadian Western Natural Gas Company Limited 1998 General Rate Application Phase II (Application 980413) (Released June 13, 2000)

²⁴ Reference Tab B – Revised November 2005

Table 6. ATCO Gas South 2004 Revenue to Cost Ratios Using Decision 2000-16 Methodology

Rate Group	Revenue (\$*1000)	Cost ²⁵ (\$*1000)	Revenue/Cost Ratio (%)
Rate 1/11	163,562	164,838	99
Rate 3	11,757	11,099	106
Rate 5	908	962	94
Rate 13	7,081	6,409	110
Total	183,308	183,308	

The Board considers that revenue to cost ratios that fall within a target 95% to 105% deviation band demonstrate a close correlation between costs determined through a detailed cost of service study and actual revenues. The most pronounced deviations from this target 95/105% band occur with the Rate 3 and Rate 13 groups, with the largest variance occurring in the North. Rate 5 in the South was also marginally outside the 95/105% band.

The Board considers it noteworthy that ATCO Gas also provided an updated/alternate cost of service study for illustration purposes in Tabs C and D of its Application which retains the 2003/2004 rate structure, but provides a functionalization of costs into categories established in the 2003 unbundling proceeding. The revenue to cost ratios determined by ATCO Gas using this approach²⁶ are shown for both the North and South in Table 7.

Table 7. ATCO Gas North and South Revenue to Cost Ratios Using Existing Rate Structure with Unbundled Methodology

Rate Group	North Revenue/Cost Ratio (%)	South Revenue/Cost Ratio (%)
1/11 (<8000 GJ/year)	97	98
3 (>8000 GY/year)	147	122
5 (Irrigation)		106
13 (>8000 GJ/yr transportation)	155	127

The Board considers it is appropriate to utilize the methodology established in Decision 2000-16 as being a relevant test on a prospective basis since it utilizes previously established concepts. However, the data in Table 7, when contrasted to the data in Tables 5 and 6, could be considered to support the ATCO Gas expectation that the future rate design would directionally shift costs from Rate 3 and 13 customers to Rate 1 and 11 customers.²⁷ The Board believes that this could be a consideration if the Board were to determine that any allocation adjustments respecting the rates that were in place during 2003 and 2004 might be appropriate going forward.

While ATCO Gas provided three additional cost of service studies in Tabs E, F and G of its Application, those analyses relate to development of new rate structures that may be relevant in the future, and will be addressed in subsequent modules of this Application.

²⁵ Reference Tab A – Revised November 2005

²⁶ Reference Tab C Revised November, 2005 and Tab D Revised November, 2005, Item 1.6.2 Attachment 5

²⁷ ATCO Gas considered on page 13 of its Application that the use of the new COSS in Tabs C and D would indicate a cost shift from Rates 3 and 13 to Rate 1 based on the Tab C and Tab D COSS methodology.

The Board will now further consider the 2003 and 2004 rates in light of the COSS revenue to cost ratios referenced in Tables 5 and 6. In making its assessment, the Board considers it is relevant to explore the following factors:

- prior litigated Phase II proceedings and settlements
- outstanding placeholders
- materiality of any potential adjustments
- timing of this Phase II assessment.

Prior Litigated Phase II Proceedings and Settlements

The last litigated Phase II proceeding for ATCO Gas South (as Canadian Western Natural Gas Company Limited) was for 1998 which was addressed in Decision 2000-16. There was no Phase II proceeding for the subsequent 2001 and 2002 GRA test years for ATCO Gas South for the reasons addressed in Decision 2002-028.²⁸ The Board was persuaded that adjustments to the South rates were unlikely to be material or warrant a rigorous regulatory proceeding at that time.

For ATCO Gas North (as Northwestern Utilities Limited), the last litigated Phase II was for a 1993-1994 test period addressed in Decision E94001. Subsequently, the 1998 to 2002 rate methodology was negotiated through a settlement approved by the Board in Decision U98060.²⁹

Calgary and AUMA/Edmonton have argued that the reason why the revenue to cost ratios in both the North and the South fall outside of the 95% to 105% revenue to cost range is likely attributable to the fact that there has not been a contested litigated Phase II proceeding since 1998 in the South and 1994 in the North. The Board concurs.

With respect to applying the Decision 2000-16 methodology in relation to ATCO Gas North, the Board notes Calgary's caution that since the Decision 2000-16 methodology was specific to the characteristics of ATCO Gas South, there could be concerns inherent with using the methodology results with excessive rigour to make any adjustments for ATCO Gas North. Instead, Calgary considered that it would be more efficient for the Board to focus upon development of methodologies on a going-forward basis, rather than endeavouring to make adjustments using potentially suspect information.

The Board notes that Decision 2000-16 indicated that Rate 5 for irrigation customers in the South under-recovered costs. ATCO Gas was directed to correct the allocation of costs in the subsequent Phase II application.³⁰ ATCO Gas identified this as a reason for the Rate 5 revenue to cost ratio shown in Table 6 being outside the 95/105% range. The Board concurs with ATCO Gas that this anomaly will likely continue until the Decision 2000-16 methodology is updated or modified.

Outstanding Placeholders

In Order U2005-307, the Board established the ATCO Gas North and South revenue requirements for both 2003 and 2004. The Board indicated that resolution of the outstanding

²⁸ Decision 2002-028 – ATCO Electric and EPCOR 2001 Regulated Rate Option - Reasons to Deny Motion by SPPA (Application 1237695, 1247239 & 1247227) (Released: Mar 8, 2002)

²⁹ Decision U98060 – Northwestern Utilities Limited An Application for Approval of Rates, Tolls, Charges, and Terms and Conditions of Service for Core Customers for 1998 Through to 2002

³⁰ Decision 2000-16, CWNG 1998 GRA Phase II, page 30

2003/2004 GRA placeholders associated with ATCO I-Tek IT services and ITBS remains outstanding, but could be dealt with following that final placeholder reconciliation. For reference, the outstanding placeholder amounts³¹ are shown in Table 8.

Table 8. 2003/2004 Outstanding GRA Placeholder Amounts for ATCO I-Tek IT Services and ITBS

	2003 (\$*1000)	2004 (\$*1000)
ATCO Gas North		
ATCO I-Tek Computer Services	4,832	4,643
ATCO I-Tek Total Capital	1,771	953
ITBS Billing and Customer Services	17,493	14,239
ITBS Total Capital	463	463
Total Utility Operating Cost	22,325	18,882
Total Utility Capital Cost	2,234	1,416
ATCO Gas South		
ATCO I-Tek Computer Services	5,193	4,939
ATCO I-Tek Total Capital	1,835	1,024
ITBS Billing and Customer Services	17,493	14,239
ITBS Total Capital	463	463
Total Utility Operating Cost	22,686	19,178
Total Utility Capital Cost	2,298	1,487

The Board concurs with Calgary that while these amounts remain outstanding, a complete analysis of the appropriate revenue to cost ratios can not be understood.

Materiality of Any Potential Adjustments

ATCO Gas provided information respecting the cost and rate implications that would be associated with potential adjustments to recategorize revenue among rate groups so that it might more closely align with target revenue to cost ratios. Examples of potential adjustments are illustrated in Tables 9 and 10.

Table 9. ATCO Gas North 2004 Revenue to Cost Ratios Using Decision 2000-16 Methodology Illustrating Adjusted Revenue to Cost Ratios and Associated Riders³²

Rate Group	95/105% Adjusted Revenue ³³ (\$*1000)	Revenue/Cost Ratio (%)	Rider Aug- Dec 2006 (\$/GJ)	100% Adjusted Revenue ³⁴ (\$*1000)	Revenue/Cost Ratio (%)	Rider Aug- Dec 2006 (\$/GJ)
Rate 1/11	168,583	99.7	0.072	169,315	100	0.091
Rate 3	12,230	105	(0.457)	11,647	100	(0.584)
Rate 13	3,127	105	(0.112)	2,978	100	(0.137)
Total	183,940			183,940		

ATCO Gas indicated that the total impact on a typical North residential customer associated with a 95/105% adjustment for all rate classes over an August to December, 2006 collection period would be an aggregate amount of \$3.94. Similarly, an adjustment to 100% revenue to cost ratios for all rate classes would result in a residential customer impact of an aggregate amount of \$4.98 over that same rider collection period.

³¹ From Item 1.4.1 Attachment 1, November 23, 2005

³² Reference Item 1.6.2 Attachment 5 North, December 22, 2005

³³ Adjustments bring any rate group's revenue to cost ratio that is outside the 95-105% range to 95% if below 95% and to 105% if above 105%

³⁴ Adjustments designing rates to recover exactly 100% of allocated costs

Table 10. ATCO Gas South 2004 Revenue to Cost Ratios Using Decision 2000-16 Methodology Illustrating Adjusted Revenue to Cost Ratios and Associated Riders³⁵

Rate Group	95/105% Adjusted Revenue ³⁶ (\$*1000)	Revenue/Cost Ratio (%)	Rider Aug-Dec 2006 (\$/GJ)	100% Adjusted Revenue ³⁷ (\$*1000)	Revenue/Cost Ratio (%)	Rider Aug-Dec 2006 (\$/GJ)
Rate 1/11	164,011	99.5	0.013	164,838	100	0.038
Rate 3	11,654	105	(0.031)	11,099	100	(0.200)
Rate 5	914	95	0.020	962	100	0.182
Rate 13	6,729	105	(0.042)	6,409	100	(0.080)
Total	183,308			183,308		

ATCO Gas calculated that the total impact on a typical South residential customer associated with a 95/105% adjustment for all rate classes over an August to December, 2006 collection period would be an aggregate amount of \$0.73. Similarly, an adjustment to 100% revenue to cost ratios for all rate classes would result in an aggregate residential customer impact of \$2.08 over that same rider collection period.

With regard to potential revenue adjustments, PICA³⁸ recommended that the Board adjust the rates, for both the North and South, to reflect 100% cost recovery for Rates 3 and 13, effective January 1, 2005, and considered this adjustment would be consistent with the timing lag associated with implementation of Phase II rate changes absent the extraordinary events that delayed the 2003/2004 Phase II Application. PICA's recommended approach would introduce a rider for collections effective from January 1, 2005. PICA was not opposed to confirmation of the rates in place during 2003 and 2004 as being final.

In a somewhat analogous fashion, the Rate 13 Group recommended that the rates ought to be adjusted to bring the revenues to the 95% to 105% target thresholds as illustrated in Tables 9 and 10 for 2004, and understood that the impact of a 2003 revenue adjustment would be of a similar magnitude, although the Board understands that it made no explicit recommendation respecting 2003. All other parties recommended that the rates for 2003 and 2004 should be approved as final.

Timing of This Phase II Assessment

As noted by AUMA/Edmonton,³⁹ the Board's historical practice has not been to retroactively adjust interim rates, but rather, the Board ordinarily will adjust rates going forward to reflect the results of a COSS and the Board's decision on an appropriate rate design. On occasion, the Board will also establish riders to collect misallocations of costs in respect of a particular test period.

In considering whether or not to adopt its traditional approach to Phase II rate adjustments, the Board notes that this Phase II assessment for final approval of 2003 and 2004 rates is being

³⁵ Reference Item 1.6.2 Attachment 5 South, December 22, 2005

³⁶ Adjustments bring any rate group's revenue to cost ratio that is outside the 95-105% range to 95% if below 95% and to 105% if above 105%

³⁷ Adjustments designing rates to recover exactly 100% of allocated costs

³⁸ Reference PICA Reply Argument, page 2

³⁹ Reference AUMA/Edmonton Argument, page 5

undertaken at a point in time considerably beyond an ideal timeframe which would have facilitated the implementation of any appropriate rate adjustments within the 2003-2004 test period in order to mitigate intergenerational inequities. The less than ideal timing can be attributed to various reasons, including the sale of ATCO's retail operations, regulatory changes resulting from amendments to the *Gas Utilities Act* impacting retailer services and ATCO Gas' 2005 to 2007 Phase I Application. Notwithstanding, the Board must appropriately assess and consider whether or not the specific circumstances warrant rate adjustments and implementing adjustment riders even with this less than optimum timing.

In considering a potential rate adjustment back to within the 2003-2004 test period, the Board has weighed the following factors:

- the history of the rates including their basis in negotiated settlements agreed among parties in the North where the revenue to cost ratios have the greatest divergence from the 95%-105% target range;
- the traditional approach taken by the Board in Phase II issues of adjusting rates going forward;
- as referenced by CCA,⁴⁰ the fact that industrial and larger commercial customers have expectedly made 2003-2004 business decisions based upon the rates that were in place, albeit on an interim basis, during that time period.
- the consideration that residents at new sites may be billed incremental collection riders for time periods for which they were not residing at the sites;
- the possibility of other intergenerational concerns inherent with adjusting rates after-the-fact
- the appropriateness of applying to the North the Decision 2000-16 methodology which was developed for the South;
- the outstanding 2003-2004 placeholder amounts which might have had implications on the revenue to cost ratios had they been settled;
- the impact of moving the revenue to cost ratios within the 95%-105% range; and
- the desire to bring finalization to the 2003-2004 rates.

Some of these factors go to rate design cost considerations while others go to non-cost considerations like certainty of rates, public acceptability, freedom from controversy, rate stability, fairness in the apportionment of total costs and avoidance of undue discrimination, and the encouragement of efficiency.

After considering the above factors and the prior discussion, the Board is not persuaded that it would be in the public interest to implement any rate riders to reallocate the revenues among rate classes for either ATCO Gas North or ATCO Gas South with respect to the 2003 and 2004 GRA period.

Accordingly, the Board approves the interim rates that were in place during 2003 and 2004, and attached as Appendix 1, as final.

⁴⁰ Reference CCA Argument, page 6

Interim Rate Adjustment After the 2003-2004 Test Period

While the Board has approved the 2003-2004 interim rates which were in place during that time period as final, and will finalize the 2005-2007 rates in a subsequent process, the Board considers it appropriate to address the interim rates in place subsequent to the 2003-2004 period.

Ordinarily, the Board would likely have assessed the merits of implementing rate adjustments that may have been warranted in association with a 2003-2004 Phase II proceeding at, or prior to, the beginning of 2005. In the circumstances of the delayed 2003-2004 Phase II application, no adjustments were made in that regard. However, the Board considers that it is appropriate to now reassess the merit of an adjustment to the 2005-2007 interim rates in view of the results of the 2003-2004 COSS results which demonstrate a conceptual movement to reallocate costs from Rate 3 and 13 customers to Rate 1 and 11 customers. As discussed earlier in this Decision in relation to the results in Table 7, the Board notes that ATCO Gas suggested that utilizing a functionalization of costs into categories established in the 2003 unbundling proceeding would further support an incremental cost shift from commercial to residential customer categories.

With the above rate design factors and specific circumstances of this application in mind, the Board considers that the recommendation by PICA to make some directional adjustment effective in January 2005 has merit. In this respect, the Board considers that it would be reasonable to make moderate rate adjustments on a going-forward basis as of mid-2006 and to make a corresponding moderate adjustment from January 1, 2005 to the mid-2006 interim rate implementation date via a rate rider. The Board considers that the interim rate adjustment and rate riders should be determined using the Decision 2000-16 methodology bringing the adjustments just to the 95/105% thresholds while ensuring that no rate group experiences an aggregate resultant rate increase in excess of 10%. In light of the non-cost rate design principles discussed above, the Board considers that a limitation of 10% on any rate increase will mitigate any immediate potential rate shock implications to customers.

Accordingly, the Board directs ATCO Gas to prepare both North and South submissions for mid-2006 interim rate adjustments plus rate riders to recover the January 1, 2005 through mid-2006 adjustments, which will bring the interim rates to the 95/105% thresholds associated with the Decision 2000-16 methodology, subject to a maximum 10% rate increase for any one rate class.

On a related matter, the Board is aware that ATCO Gas has made a compliance filing application (2005-2007 Phase I Application 1452948) for rate adjustments for ATCO Gas South, which will be dealt with in that application. However, ATCO Gas may wish to consider if there may be any efficiencies for practical consolidation of the adjustments in its refiling process directed in this Application.

The Board wishes to clarify that it is not making a determination in this Decision with respect to finalization of rates for the 2005-2007 time period. Final rates in respect of the 2005-2007 time period will be the subject of a subsequent 2005-2007 GRA Phase II application.

4 ORDER

IT IS HEREBY ORDERED THAT:

- (1) The interim rates that were in place for 2003 and 2004 for ATCO Gas, attached in Appendix 1, are hereby approved as final for both the North and the South.
- (2) ATCO Gas prepare and file by July 14, 2006, both North and South submissions, for interim rate adjustments to be effective August 1, 2006, to bring the interim rates to the 95/105% thresholds associated with the Decision 2000-16 methodology while ensuring that no rate group experiences a rate increase in excess of 10% of the rates currently in place.
- (3) ATCO Gas prepare and file by July 14, 2006, both North and South submissions, for rate riders to be effective from August 1, 2006 until December 31, 2006. These rate riders shall recover an amount in respect of a rate adjustment to interim rates for the January 1, 2005 through July 31, 2006 time period which will have the effect of bringing the interim rates for such period to the 95/105% thresholds associated with the Decision 2000-16 methodology subject to the limitation that no rate group experiences a rate increase over interim rates in excess of 10% of the rates currently in place for the January 1, 2005 to July 31, 2006 time period.

Dated in Calgary, Alberta on June 27, 2006.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

J. I. Douglas, FCA
Member

(original signed by)

Gordon J. Miller
Member

**APPENDIX 1 – ATCO GAS NORTH AND ATCO GAS SOUTH 2003 AND 2004 RATES
APPROVED AS FINAL**



Appendix 1 2003
2004 Final Rates.pdf

(consists of 2 pages)

2003/2004 North Rates in Place

North	Jan 1 2003 (2002-115)	Mar 28 2004 (2003-108 & 2004-004)	May 4 2004 (2003-108 & 2004-004)	Jul 1 2004 (2004-036)
1 Fixed (\$/mo)	12.99	12.99	11.29	11.29
Variable (\$/GJ)	1.006	1.006	0.99	0.99
Rider (\$/GJ)				0.22
3 Fixed (\$/mo)	258.73	258.73	256.32	256.32
Variable (\$/GJ)	0.267	0.267	0.267	0.267
Demand (\$/GJ/mo)	3.80	3.80	3.70	3.70
Rider (\$/GJ)				0.096
11 Fixed (\$/mo)	12.99	11.29	11.29	11.29
Variable (\$/GJ)	1.006	0.99	0.99	0.99
Rider (\$/GJ)				0.22
13 Fixed (\$/mo)	301.07	292.4	292.4	292.4
Variable (\$/GJ)	0.054	0.052	0.052	0.052
Demand (\$/GJ/mo)	5.83	5.68	5.68	5.68
Overrun (\$/GJ)	0.288	0.280	0.280	0.280
Rider (\$/GJ)				0.064

South	Jan 1 2003 (2002-115)	Mar 28 2004 (2003-108 & 2004-004)	May 4 2004 (2003-108 & 2004-004)	Jul 1 2004 (2004-036)
1 Fixed (\$/mo)	13.79	13.79	12.09	12.09
Variable (\$/GJ)	1.074	1.074	1.058	1.058
Rider (\$/GJ)				0.309
3 Fixed (\$/mo)	265.25	265.25	262.84	262.84
Variable (\$/GJ)	0.284	0.284	0.284	0.284
Demand (\$/GJ/mo)	3.45	3.45	3.35	3.35
Rider (\$/GJ)				0.124
5 Fixed (\$/mo)	21.22	21.22	18.47	18.47
Variable (\$/GJ)	0.895	0.895	0.876	0.876
Rider (\$/GJ)				0.094
11 Fixed (\$/mo)	13.79	12.09	12.09	12.09
Variable (\$/GJ)	1.074	1.058	1.058	1.058
Rider (\$/GJ)				0.309
13 Fixed (\$/mo)	291.78	283.11	283.11	283.11
Variable (\$/GJ)	0.156	0.154	0.154	0.154
Demand (\$/GJ/mo)	5.62	5.47	5.47	5.47
Overrun (\$/GJ)	0.277	0.270	0.270	0.270
Rider (\$/GJ)				0.073