



ATCO Gas

2005-2007 General Rate Application
Compliance Filing to Decision 2006-004
Part A - Interim Rates ATCO Gas South

June 27, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-064: ATCO Gas
2005-2007 General Rate Application
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Application No. 1452948

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

**ATCO GAS
2005-2007 GENERAL RATE APPLICATION
COMPLIANCE FILING TO DECISION 2006-004
PART A - INTERIM RATES ATCO GAS SOUTH**

**Decision 2006-064
Application No. 1452948**

1 INTRODUCTION

On March 17, 2006, ATCO Gas (ATCO or AG) filed a Compliance Filing application (the Application) with the Board that included a request for approval of proposed rates on an interim basis. ATCO Gas South (AGS) requested approval of a surcharge Rider J in the amount of 20.37% to be added to all delivery charge rates, effective on all consumption from June 1, 2006 to December 31, 2006. Rider J would be applied only to the delivery charges and not applied to the gas cost recovery rate.¹ Rider J was proposed to collect the projected revenue deficiency from AGS customers equal to the difference between the revenue generated by existing interim rates during the period from January 1, 2005 until December 31, 2006 and the AGS revenue requirement that ATCO forecast to result for 2005 and 2006 based on Decision 2006-004.² The shortfall was estimated to be in the amount of \$20 million. The shortfall principally reflected costs for the Carbon storage facility that were not included in AGS's 2005 and 2006 GRA application upon which the existing interim rates were based. In Decision 2006-004, the Board directed AGS to include these Carbon storage facility costs in revenue requirement.

No further interim rate increase was requested for ATCO Gas North (AGN) since the revenue deficiency on current rates was insignificant for the balance of 2005 and 2006. An interim increase was implemented for AGN on September 1, 2005; this interim charge was still in place at the time of this Decision.

2 PARTICULARS OF THE APPLICATION

In the Compliance Filing, AG indicated that the revenue shortfall for AGS was \$20.028 million for 2005 and 2006. ATCO submitted that shortfalls were comprised of the updated one-time adjustments to be recovered in 2006, the GRA shortfalls for 2005 and 2006 less amounts recovered through interim rates in 2005 and 2006, some outstanding adjustments from the 2003/2004 GRA and the return of the portion of the Calgary Stores Block proceeds previously allocated to customers. The requested interim increase of \$20 million was proposed to be collected from June 1, 2006 through December 31, 2006.

AG also proposed that the interim increase should be applied to all distribution rate components and provided proposed rates for each rate class for AGS customers.

¹ The gas cost recovery rate refers to Direct Energy's (the default supplier for ATCO Gas) Gas Cost Flow-Through Rate (GCFR).

² Decision 2006-004 – ATCO Gas 2005-2007 General Rate Application Phase I (Application No. 1400690) (Released: January 27, 2006)

By letter dated March 22, 2006, the Board indicated that, if a decision on the Application could not be rendered by the proposed date of June 1, 2006, the Board would consider implementing Rider J on June 1, 2006 on an interim basis to moderate future rate impacts. By letter dated April 4, 2006, the Board requested that by May 5, 2006, interested parties provide submissions with respect to the Application, and that AG provide a response to those submissions by May 12, 2006. By letter dated May 11, 2006, ATCO requested interim approval of Rider J for AGS effective June 1, 2006, to avoid increasing the Rider J percentage that would result if implemented at a later date. ATCO Gas noted that a Rider J surcharge effective on June 1st in the amount of 20.37% would be required to collect the shortfall in revenue. Rider J would increase to 22.80% based on a July 1st implementation date and increase to 25.76% based on an August 1st implementation date.

3 POSITIONS OF THE INTERVENERS

By letters dated April 4, 2006 and May 15, 2006, the Consumer Group (CG) opposed implementation of the full amount of Rider J effective June 1, 2006. The CG submitted that there were still several matters at issue in the Compliance Filing which should be reflected in Rider J including:

1. The failure of ATCO Gas to include any short term debt in the capital structure for ATCO Gas (South).
2. ATCO Gas had added back \$1.4 million in 2005 and \$1.6 million in 2006 to the reductions to Account 721 Administrative Expenses as directed by the Board.
3. ATCO Gas appeared to have increased its forecasts for the Work Management and AMR projects.
4. The requested shortfall included recovery of \$362,000 of Calgary Stores Block accumulated depreciation previously credited to customers. The Board's order relating to this matter had been "vacated" and according to the CG must be reconsidered by the Board.

In addition to the above matters that were still at issue in the Compliance Filing, the CG noted that the City of Calgary filed a Review and Variance Application concurrent with its submission to the Compliance Filing.

The CG noted that each of the above issues could serve to reduce the \$20.033 million surcharge requested by ATCO Gas for AGS. The CG submitted that the approval of Rider J should be delayed one or two months pending issuance of the final Compliance Order. The potential reductions discussed above would tend to offset any increase in Rider J as a result of such delays.

By letter dated May 18, 2006, Calgary supported the submission of the CG that the approval of Rider J by the Board should be delayed for a reasonably short period pending issuance of the final Compliance Order. In addition, Calgary raised issues regarding I-Tek Labour hours and volumes. Calgary also noted its concerns regarding completeness of the Compliance Filing and ATCO's compliance with the Boards' directions set out in Decision 2006-004.

4 VIEWS OF THE BOARD

In this Decision, the Board will only deal with the request for an interim rate increase through the implementation of Rider J in the South. All other matters related to the Application will be dealt with in subsequent decisions. The Board notes that while parties objected to the completeness of the Compliance Filing, the only comments with respect to the proposed Rider J increase related to the timing and the amount of increase.

In evaluating an increase to interim rates, the Board has employed a number of factors. Although these factors normally apply in respect of interim rate increases made prior to the determination of revenue requirement in respect of a particular test period, they are useful nonetheless in assessing the appropriateness of an interim increase following the initial Phase I GRA revenue requirement determination put prior to the finalization of the revenue requirement in a compliance filing. These factors can be grouped into two categories, those that relate to the quantum of, and need for, the rate increase and those that related to more general public interest considerations.

Quantum and need factors are those which relate to the specifics of the requested rate increase and include:

- The identified revenue deficiency should be probable and material
- All or some portion of any contentious items may be excluded from the amount collected
- Is the increase required to preserve the financial integrity of the applicant or to avoid financial hardship to the applicant?
- Can the applicant continue safe utility operations without the interim adjustment?

If all or a portion of the suggested rate increase appears appropriate after a consideration of the quantum and need factors, the Board must assess certain general public interest factors to see if a rate increase is justified, these include:

- Interim rates should promote rate stability and ease rate shock
- Interim adjustments should help to maintain intergenerational equity
- Can interim rate increases be avoided through the use of carrying costs?
- Interim rate increases may be required to provide appropriate price signals to customers
- It may be appropriate to apply the interim rider on an across-the-board basis

The Board recognizes that the above listed considerations may be given different weighting depending on the specific circumstances surrounding each application. The Board has considered the above factors in its deliberations and finds that they generally support the implementation of Rider J at this time.

The Board considers that there is no question there is a revenue deficiency for AGS with respect to the 2005 and 2006 test years. While the exact amount of the revenue deficiency has not yet been determined, pending the finalization of the Compliance Filing, the Board is satisfied that a substantial portion of the shortfall identified by ATCO will need to be collected. To further delay the implementation of the interim increase to be collected through Rider J would increase the impact on future rates to the customers.

The Board considers the implementation of Rider J to be applicable to all distribution rate components for consumption on and after July 1, 2006 through December 31, 2006 is appropriate. However, given the outstanding concerns of parties with respect to certain amounts included in the Compliance Filing and in light of the factors discussed above, the Board finds that a reduction to the amount of the increase requested by AG from \$20 million to \$18 million is considered to be appropriate at this time. A true up of any amount of over or under-collection of revenue through Rider J when compared to the final revenue shortfall amount determined in the Board's decision related to the Compliance Filing Application, will be carried forward into the next GRA or when AG applies for adjustment to rates to deal with matters related to finalization of placeholders.

The Board considers that the implementation of the shortfall collected through Rider J at this time will mitigate the risk of a larger rate increase in the future, assist in maintaining intergenerational equity, and will provide ATCO with a revenue amount close to the estimated revenue requirement.

5 ORDER

IT IS HEREBY ORDERED THAT:

- (1) Rate Rider J, [Appendix 1](#), to this Decision is hereby approved on an interim basis for ATCO Gas South service zone, applicable to all consumption for the period from July 1, 2006 through December 31, 2006.

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)

Gordon J. Miller
Member

(original signed by)

Laurie J. Bayda
Acting Member

**APPENDIX 1 – AGS INTERIM RATES FOR THE PERIOD JULY 1, 2006 TO
DECEMBER 31, 2006**

Effective by Decision 2006-064
On consumption July 1, 2006

**ATCO GAS SOUTH AND PIPELINES LTD. - SOUTH
RIDER “J” SURCHARGE TO DELIVERY SERVICE RATES**

Applicable to the fixed and variable charges in ATCO Gas South DSP Delivery
Service Rates 1, 11, 3, 13, 13B and 5. Effective on all consumption for the period July 1, 2006
through December 31, 2006.

Surcharge to Fixed Charge, Variable Charge and Demand Charge 20.52%