



ATCO Gas

2005-2007 General Rate Application – Phase 1
Second Compliance Filing to Decision 2006-004
Part B

December 28, 2006

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2006-133: ATCO Gas

205-2007 General Rate Application – Phase I

Second Compliance Filing to Decision 2006-004

Part B

Application No. 1478363

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

ATCO GAS

2005-2007 GENERAL RATE APPLICATION – PHASE I SECOND COMPLIANCE FILING TO DECISION 2006-004 PART B

Decision 2006-133
Application No. 1478363

1 INTRODUCTION

On January 27, 2006, the Alberta Energy and Utilities Board (the Board) issued Decision 2006-004¹ and on February 24, 2006, the Board issued Errata Decision 2006-014,² relating to the ATCO Gas (AG or the Company) 2005-2007 General Rate Application (GRA) Phase I. Subsequent to the filing of the Phase I GRA, the ATCO Group of Utilities filed Application 1407946 relating to certain revenue requirement matters, namely, pension costs, head office rent, use of preferred shares in the capital structure and executive compensation (Common Matters) which were common among the ATCO Utilities³ (AU). The Board established a separate process for the Common Matters Application.

In Decision 2006-004, the Board directed AG to re-file its 2005-2007 Phase I GRA to incorporate the Board's findings and to provide all of the supporting schedules necessary for the Board to make its final determination respecting the 2005-2007 revenue requirement. On March 17, 2006, AG submitted the refiling (the Compliance Filing) incorporating the Board adjustments. The Compliance Filing also requested approval of a change to interim rates through the approval of a Rider J for ATCO Gas South (AGS) to be effective on the first of the month following the decision on the Compliance Filing until December 31, 2006. The Board dealt with the Rider J portion of the Compliance Filing in Decision 2006-064.⁴

On August 11, 2006, the Board issued Decision 2006-083⁵ relating to the balance of the Compliance Filing. In that decision, the Board found that AG had complied with the majority of directions in Decision 2006-004; however, matters related to:

- Board Direction 12 – Deemed Capital structure to Include Short-term Debt,
- Board Direction 40 – Add-back Administrative Expenses to Account 721; and
- Changes in Income Tax Rates

required further review and revision in a second compliance filing.

¹ Decision 2006-004 – ATCO Gas 2005-2007 General Rate Application Phase I (Application No. 1400690) (Released: January 27, 2006)

² Decision 2006-014 – ATCO Gas 2005-2007 General Rate Application – Phase I Errata of Decision 2006-004 (Application No. 1400690) (Released: February 24, 2006)

³ ATCO Utilities includes ATCO Gas, ATCO Electric and ATCO Pipelines

⁴ Decision 2006-064 – ATCO Gas 2005-2007 General Rate Application Compliance Filing to Decision 2006-004 Part A (Application 1452948) (Released: June 27, 2006)

⁵ Decision 2006-083 – ATCO Gas 2005-2007 General Rate Application – Phase I Compliance Filing to Decision 2006-004 Part B (Application No. 1452948) (Released: August 11, 2006)

On September 11, 2006, AG filed the present application, number 1478363 (Second Compliance Filing) in response to Decision 2006-083. The Board issued notice in respect to the Second Compliance Filing on September 14, 2006.

On October 2, 2006, the Consumer Group (CG) filed its submission regarding the Second Compliance Filing and on October 11, 2006, AG filed a response to the CG submission.

On October 11, 2006, the Board issued Decision 2006-100⁶ related to its determinations regarding the Common Matters. In that decision, the Board directed the AU to file supporting schedules that were necessary for the Board to make its final determinations respecting the Common Matters. As of the date of this Decision, the Board has not rendered its decision in respect of the Common Matters compliance filing and therefore, any changes to the revenue requirements awaiting completion of the Common Matters Application have not been reflected in the financial schedules filed in the Second Compliance filing.

The Board considers that the record for this proceeding closed on October 1, 2006.

2 ISSUES

This section deals with those items in the Second Compliance Filing which generated concerns. The Board has prepared Table 1 listing the items where AG has complied with the directions in Decision 2006-083 and Table 2 where additional revisions are required as discussed below.

Table 1. Status of Compliance to Directions in Decision 2006-083

Issue # per Decision 2006-083	Issue Per Decision 2006-083	Status per this Decision
3.1	Necessary Working capital	Compliant. Calgary R&V Application No. 1479340 pending.
3.2	Customer requested meter moves outside of planned 2005 Meter relocation areas	Compliant
3.3	Brooks facility	Awaiting AG application for sale and disposition.
3.4	Forecast Cost of New Debt	Compliant
3.5	Deemed Capital Structure to include Short-term Debt	Compliant.
3.6.	Placeholders - Common Matters <ul style="list-style-type: none"> • Pension Costs • Head Office Rent • Use of Preferred Shares • Executive Compensation 	Final resolution awaiting disposition in Application No. 1488087 Compliance to Decision 2006-100 Common Matters
3.7	Placeholder amount for I-Tek Operating Expenses	Compliant pending benchmarking evaluation.
3.8	Add-back Administrative Expenses to Account 721	Compliant
3.9	Changes in Income Tax Rates	Compliant
3.10	Compliance with Other Directions	Compliant
3.11	Work Management	Compliant
3.12	Other I-Tek and ITBS Matters	Compliant
3.13	Transmission Rider	Compliant
3.15	Rider J	Compliant

⁶ Decision 2006-100 – ATCO Utilities 2005-2007 Common Matters Application (Application No. 1407946) (Released: October 11, 2006)

Table 2. Directions in this Decision

Section number in this Decision	Issue in this Decision	Direction per this Decision
3.4.5	Gas Balance Placeholder	Direction included in Section 3.9 in this Decision
3.4.6	Return on Equity (ROE) Placeholder	Revision required to Revenue Requirement forecast to reflect ROE per Order U2006-292
3.5	Add-back Head Office Costs	Revision required to forecast Revenue Requirement per Table 4. AG R&V Application No. 1481898 pending.
3.7	Schedule C charges	Revision to forecast Revenue Requirement in Third Compliance filing
3.9	Daily Forecasting and Settlement System	Revision to forecast Revenue Requirement in Third Compliance filing.
3.10	Deferral of Revenue over-recovery	Decision on this request to await the Third Compliance filing.
3.14	Calgary Stores Block	Revision required to Interest in Third Compliance filing

Unless otherwise noted below, interveners and the Board have accepted the items listed in Table 1 as being compliant with the Board’s directions.

2.1 Necessary Working Capital

By submissions dated May 5, 2006 and September 15, 2006, Calgary filed application 1479348 for Review and Variance (R&V) of Decision 2006-004 regarding the issue of necessary working capital (NWC) related to storage gas inventory at Carbon.

CG advised that its position regarding the NWC for Carbon storage gas was essentially the same as that of Calgary.

Views of the Board

In recognition of Calgary’s R&V, and CG’s endorsement related to the issue of NWC for Carbon storage inventory, the Board will defer further consideration on the issue of the amount of NWC component related to the 2005 Carbon storage gas in inventory to the R&V process.

2.2 Board Direction 7 – Brooks Facility

In Decision 2006-004, the Board directed AG to treat the remaining net book value of the Brooks facility as regulated assets held for future disposition including the undepreciated capital cost for tax purposes.⁷ The Board will await the AG application for sale and disposition of the Brooks vacated assets prior to making any further determination regarding the accounting treatment of the asset.

⁷ p. 23

2.3 Board Direction 12 – Deemed Capital Structure to include Short-Term Debt

In its Second Compliance Filing, AG submitted that:

ATCO Gas has updated the debt cost calculations to ensure that any amounts of positive mid year STD are included in the calculation of the debt cost rate at the short term cost rate as shown in Schedules 3.2-E (North) and Schedules 3.2-L (South).⁸

CG submitted that the forecast AG should have utilized for the Compliance Filing should have been the forecast for the original GRA filing subject to Board rulings. The CG submitted it was not appropriate for a utility to utilize a new capital structure for a compliance filing. To do so would significantly increase the regulatory process and disadvantage interveners as generally there is a limited hearing process for the compliance filings.

CG noted that the Board stated in Decision 2006-004 that “[t]he cost of debt shall reflect the actual mix of long-term and short-term debt instruments used by utility management to support the rate base.”

CG submitted that, in the case of the Second Compliance Filing, the AG management forecast of long-term debt and short-term debt, as updated by BR-AG-38, should be utilized by the Board. AGS originally forecast short-term debt in its capital structure of \$12,819,000 in 2005 and \$9,406,000 in 2007.

The CG considered that it would be reasonable to include short-term debt in the capital structure for 2007. However, the 2006 AGS forecast short-term debt amount was negative in the original GRA filing and was disallowed by the Board. Therefore, the 2006 short-term debt should be set to zero for compliance filing purposes. The corresponding 2006-083 amounts appear to be \$6,739,000 for 2005 and \$3,610,000 for 2007.⁹ Adjustments to the originally filed capital structure to reflect a different rate base should be done by reducing the current long-term debt and short-term debt on an equal and relative basis for each of 2005 and 2007. The 2006-083 rate base amounts are \$559,593,000 for 2005 and \$552,436,000¹⁰ for 2007 compared to the BR-AG-38 amounts of \$560,082,000 for 2005 and \$560,558,000 for 2007.¹¹ AG is forecasting \$6,080,000 for 2005 and \$5,796,000 for 2007 short-term debt less than the forecast provided in BR-AG-38. This compares to a reduction in forecast rate base of \$489,000 for 2005 and \$7,639,000 for 2007. The amount of short-term debt forecast in the Second Compliance Filing is too low for AGS for 2005 and 2007. The CG recommended that the same percentage of short-term and long-term debt be utilized in the AGS forecast weighted average cost of capital. The following tables sets out the AGS BR-AG-38 updated forecast of short-term and long-term as a percentage of total debt.

⁸ Application 1478363, Board Direction 1

⁹ Schedule 3.2 L

¹⁰ Compliance Filing Schedule 1.6 E

¹¹ BR-AG-38, Schedule 1.6 E

Table 3. Forecast Long and Short-Term Debt (AGS BR-AG-38)

	2005 (\$000's)		2007 (\$000's)	
Long-Term	\$309,004	96.02%	\$311,401	97.07%
Short-Term	\$12,819	3.98%	\$9,406	2.93%
	\$321,823		\$320,807	

The CG recommended that 3.98% of the 2005 and 2.93% of the 2007 total AGS debt be financed by short-term debt.

AG submitted that it was not only appropriate to utilize a new capital structure for these compliance filings, but also necessary as AG was directed to do so by the Board:

In summary, the Board directs AG to use a deemed capital structure to determine its cost of capital and return.

AG also submitted that the CG was confusing the deemed short-term debt appearing in BR-AG-38(a) with actual financing. AG submitted that it did not believe that short-term debt was an appropriate financing method for a utility and submitted it was not a method being utilized by AG as shown on the balance sheets contained in the Second Compliance Filing. The recommendation by the CG that AG should be required to use the same ratio of deemed short-term debt to long term debt that was required to balance the rate base and actual capital structure in the original forecast was without merit and should be dismissed. As a result of directions from the Board, both the rate base and the capital structure of AGS have changed from the original filing. AG argued that it stood to reason that the short-term debt required to balance the rate base and capital structure would also change along with the associated ratio or relationship to long-term debt. In AG's view, the CG recommendation would result in deemed short-term debt displacing actual long term debt being utilized by AG to finance its rate base. AG submitted that this was both unfair and unreasonable as it did not allow AG to recover its actual financing costs. AG considered that the Board was clear when it stated:

The Board intends that the utility be provided a fair opportunity to recover the cost of its debt used to finance utility rate base.

AG submitted that it had complied with the Board direction regarding the calculation of the cost of debt and no further changes were required.

In its Second Compliance Filing, AG included Schedules 3.1-A and 3.1-B which illustrated that it had used a deemed equity ratio of 38.0%, had accounted for its preferred shares and had used a deemed debt ratio that was the residual after accounting for common equity and preferred shares, all as directed by the Board.

Views of the Board

The Board notes that CG and AG have raised the following issues regarding Board Direction 12:

- AG's use of a deemed capital structure and use of actual rather than forecast debt ratios
- Capitalization or financing in excess of rate base
- Forecast amount of short term debt

AG's use of a deemed capital structure and use of actual rather than forecast debt ratios

The Board notes CG's submission that

The Board stated in Decision 2006-004 that "(t)he cost of debt shall reflect the actual mix of long-term and short-term debt instruments used by utility management to support the rate base." This seems to suggest that a future filing of actual long-term and short-term debt ratios will be provided and rates adjusted on an actual basis. The CG is also concerned because of the mirroring of financing through CU Inc. since actual financial structure can be manipulated to provide results which will benefit the utility shareholder. This moves away from the future test principles that guide utility regulation in Alberta. The CG considers that it is more appropriate to have debt ratios forecast by a utility and tested on a forecast basis.

However, the Board notes that the Board decision sentence quoted by CG was part of the following direction from the Board:

In determining the amount of **deemed** debt in the capital structure, the Board directs AG to use the following formula:

$$\text{DebtMY} = \text{Required Invested CapitalMY} - \text{Common EquityMY} - \text{Preferred SharesMY}$$

The cost of debt will be determined as the weighted average cost of debt, which is the weighted average cost of existing and **forecast** long-term and short-term debt for each utility. The Board intends that the utility be provided a fair opportunity to recover the cost of its debt used to finance utility rate base. The cost of debt shall reflect the actual mix of long-term and short-term debt instruments used by utility management to support the rate base. The cost of debt shall not reflect any "negative debt".

In summary, the Board **directs AG to use a deemed capital structure** to determine its cost of capital and return. AG is directed to comply with the following in determining its capital structure ratios and cost of capital: [emphasis added]¹²

The Board notes that its method applies the weighted average approved interest cost of AG's balance sheet debt to the total deemed amount of debt.

The Board directed AG to use a deemed capital structure and a deemed debt ratio. The Board did not intend to suggest in Decision 2006-004 that AG should use an actual debt ratio which would be adjusted in a future filing. The Board reference to "actual" short-term debt was in terms of the short term debt that AG expected to use at the time of the Second Compliance Filing forecast as opposed to a "deemed" or Board-required level of short-term debt. The Board's direction was to use a deemed level of total debt as per the formula given, with a break-down between long-term and short-term debt, that would reflect AG's "actual" (as opposed to deemed) forecast in the Second Compliance Filing. The Board recognized that AG's requirement for short-term debt might change for purposes of its Second Compliance Filing and the Board expected AG to reflect the amount of short-term debt that it "actually" planned to use.

¹² Decision 2006-004, p. 45

Capitalization or financing in excess of rate base

The Board notes CG’s comments regarding whether or not the Board would require AG to balance capitalization to rate base and CG’s submission that a “utility should not be rewarded with a higher weighted average cost of capital when it has financing in excess of rate base”.

The Board notes that in Decision 2006-004, it laid out a formula by which AG would use a deemed capitalization amount where the total debt was deemed at an amount which would precisely balance to rate base (net of no cost capital). Therefore, the Board finds that capitalization in excess of rate base is not possible under the Board’s directed method.

Forecast amount of short term debt

CG made its submission on how AG’s capital structure should be adjusted to account for the change in the approved rate base versus the originally applied for rate base. CG also noted that a basic financial premise is to have the maturities or duration of assets and financial obligations match each other.

AG submitted that it does not believe that short-term debt is an appropriate financing method for a utility and it is not a method being utilized by AG as shown on the balance sheets contained in the Second Compliance Filing.

The Board notes that Decision 2006-083 stated that:

The Board agrees with AG that Directive 12 did not require AG to use a specified percentage of STD. Rather, Directive 12 required AG to include in its debt cost calculation any STD which it has forecast for each utility. In this Decision, the Board is not addressing the amount of STD which AG should use, but rather seeks to ensure that in its refile, AG has included in its debt cost calculation any STD which it has forecast for each of AG South and AG North individually.¹³

The Board would like to clarify that it has not directed AG to use short-term debt. Rather, the Board has directed AG to include in its debt cost calculation any short-term-debt which it has forecast it will use, if any is forecast, for each of AGS and ATCO Gas North (AGN) individually.

The Board notes that, in the Second Compliance Filing, AG has included, in its debt cost calculation, certain “forecast” amounts of short-term debt. The amounts for short-term debt for AGN for each test year and for AGS in 2006 were zero. AG included short-term debt for AGS for 2005 and 2007. Notwithstanding this, AG indicated that it does not utilize short-term debt and referred the Board to its balance sheets provided as Schedules 1.6-C and 1.6-G to the Second Compliance Filing. The Board notes that the balance sheets show a zero balance for Short Term Borrowings at the end of 2005, 2006 and 2007 for each of AGN and AGS. However, the Board notes that Schedule 1.6-G of AG’s 2005-2007 GRA indicated that AGS did have substantial short-term borrowings at the end of 2004 (and therefore at the beginning of 2005). Therefore it appears to the Board that AGS did utilize short-term debt on a mid-year basis for 2005.

It appears that AG calculated its “forecast” short-term debt in its Second Compliance Filing as any positive amount by which its total deemed debt exceeded its actual long term mid-year debt

¹³ Decision 2006-083, p. 7

levels. The Board notes that it did not direct AG to calculate its forecast short-term debt in that manner. The Board notes that this calculation method appears to be consistent with the former method of balancing rate base and capitalization via short-term debt. However, the Board notes that in Decision 2006-004, a deemed capital structure method was directed in place of the former method.

In the Board's view an alternative, and arguably preferable, figure for AG's forecast mid-year short-term debt amount could have been obtained directly from its forecast balance sheets. It appears to the Board that based on the filed year-end balance sheets, AGN and AGS were not forecast to utilize short-term debt during the test period, with the exception of AGS in 2005. It appears to the Board that, based on a mid-year balance sheet approach, the short-term debt utilized by AGS during 2005 was considerably greater than the amount AG has used in its debt cost calculation. However, it is not clear to the Board if a mid-year balance sheet approach fairly represents the average use of short-term debt during 2005.

The Board notes that AGS's balance sheet¹⁴ at the end of 2004 (and therefore the beginning of 2005) included a significant investment in gas storage inventory but that this was no longer an asset of AG by the end of 2005. If the Board directed AGS to calculate its short term debt applicable to 2005, based on the beginning and ending balance sheets for 2005, it would be necessary to consider whether or not the short-term debt supported specific assets such as gas storage inventory. In the Board's view it would also be necessary to consider whether the average of the beginning and ending balance of short term debt was a fair representation of the average utilization of short-term debt in 2005. The Board is reluctant to extend the process of this proceeding to delve into those matters at this point in time. In addition the Board is not convinced that a material difference in revenue requirement would arise.

Having considered all of the above, the Board finds that AG's calculation of its debt cost rate is acceptable for 2005, 2006 and 2007. However, for future proceedings, the Board directs AG to use a forecast balance sheet approach to determining its forecast short term debt levels rather than the balancing approach that it has used in its Second Compliance Filing.

2.4 Board Direction 13 – Placeholder Amounts

2.4.1 Common Matters

The Common Matters Application included issues related to pension costs, head office rent, use of preferred shares in the capital structure and executive compensation. On October 11, 2006, the Board issued Decision 2006-100 related to the Common Matters Application. In that decision, the Board determined that AU would be required to refile the financial schedules in a subsequent compliance filing. On November 22, 2006, AU submitted its Common Matters compliance filing as required in Decision 2006-100.¹⁵ The Board is in the process of evaluating that compliance filing and will make its determinations in due course. The amounts shown as placeholders in respect of pension costs, head office rent, use of preferred shares in the capital structure and executive compensation in Decision 2006-083 shall remain as the current placeholders for the AG 2005-2007 test years until the Board issues its final decision on the Common Matters compliance filing.

¹⁴ ATCO Gas 2005-2007 Application, Schedule 1.6-F

¹⁵ Application 1488087

2.4.2 CAD/WM

The CG expressed concern that it was unable to reconcile the reductions approved by the Board in Decision 2006-083. In response AG provided instructions on where the information could be found in its filings.

The Board has reviewed the submissions of the parties, the related tables and AG’s explanation. The Board is satisfied that AG is in compliance with the Board’s direction.

2.4.3 Pension Expense

In response to the Board’s Direction 4 of Decision 2006-083, AG provided updated placeholders for Pension and Other Post Employment Benefit (OPEB) amounts and noted that these amounts were being addressed in the Common Matters compliance filing.

The Placeholder amounts AG provided were as follows:¹⁶

Placeholders (\$ 000's)	2005	2006	2007
Pension - AGN	\$359	\$372	\$386
Pension - AGS	302	313	324
Pension - AG Total	661	685	710
OPEB - AGN	342	372	386
OPEB - AGS	288	294	300
OPEB - AG Total	630	644	657
Total Pension and OPEB for AG	1291	1329	1367

CG noted that AG also stated the following with respect to the pension amortization issue being addressed in the Common Matters Application:

A decision on the Common Matters Application is expected within a month which could result in a revenue shortfall given that the effect of the pension amortization was not incorporated into the ATCO Gas GRA forecast.¹⁷

CG submitted that in Decision 2006-083, the Board provided the following Board approved pension figures:

	2005 (\$000's)	2006 (\$000's)	2007 (\$000's)	
Pension	\$661	\$685	\$710	Common Matters Filing
Supplemental Pension & OPEB	\$1,291	\$1,329	\$1,367 ¹⁸	Common Matters Filing

CG submitted that it would find it helpful for AG to reconcile Pension, Supplemental Pension and OPEB expense from the Second Compliance Filing to the AG original 2005-2007 Phase I Application and the Common Matters proceeding complete with references for each filing.

¹⁶ AG Compliance Filing II, Board Direction 4 Attachment

¹⁷ ATCO Second Compliance Filing, Deferral of Revenue Over-Recovery

¹⁸ Decision 2006-083, Account 721 Adjustments, p. 21

AG submitted that, as noted in Appendix 6, page 6-3 of the Common Matters Filing, the revenue requirement forecast of AG for the period 2005-2007 does not include the effect of the recovery of the deferred pension balances over a nine year period. Page 6-3 of the Common Matters Filing provided the impact on the revenue requirement forecast of this proposed change. The placeholder for the pension amortization is currently zero and is therefore not included in the placeholder table filed in Board Direction 4 Attachment.

AG submitted that the Pension amount shown in the Board's table that was quoted by CG above is actually the supplemental pension as shown in AG's placeholder summary filed with the response to Board Direction 4 of Decision 2006-083. The Supplemental Pension & OPEB amounts shown in the Board's table combine both the Supplemental Pension of \$661,000, \$685,000 and \$710,000 for 2005-2007 respectively with the OPEB costs of \$630,000, \$644,000 and \$657,000 for 2005-2007 respectively. In effect, the Board's summary is including the Supplemental Pension costs twice with no amount shown for Pension Amortization.

Views of the Board

The Board notes CG's concern with a discrepancy between the total Pension and OPEB amounts provided by AG and those provided by the Board in Decision 2006-083. The Board notes and agrees with AG's submission that the Board had double counted the (supplemental) pension costs in its table and that neither the Board nor AG has included figures for any amortization of the deferred pension amount that might be approved in the Common Matters proceeding.

The Board notes that the total pension and OPEB figures provided in the Common Matters compliance filing by AG equals the total supplemental pension and OPEB amounts (excluding deferred pension amortization amounts) shown in Exhibit 30-06 of the Common Matters proceeding.

The Board notes that the pension placeholder amounts were dealt with in Decision 2006-100 and that in that decision no changes were directed regarding AG's supplemental pension or OPEB amounts.

2.4.4 Placeholder Amounts for I-Tek Operating Expenses

The Board has reviewed the submissions for placeholder amounts and is satisfied that AG is in compliance with the Board's direction.

2.4.5 Gas Balance Placeholders

In its 2005-2007 GRA Phase I, dated May 13, 2005, AG indicated¹⁹ that the proceeding with respect to finalizing the terms and conditions for Retailer Service would not be completed until 2006, which could impact the 2005 – 2007 GRA revenue requirement forecast. On July 29, 2006, AG filed Application 1411635, Retailer Service Phase 2 Part B, wherein AG identified the amendments to the AG revenue requirements forecast for the test years 2005-2007.

The Board has dealt with the changes to revenue requirements related to its decision on the Retailer Service Phase 2 Part B in Section 2.10 below.

¹⁹ Application, Overview, p. 1.0-5

2.4.6 ROE Placeholder

In the Second Compliance Filing in response to Board Direction 4 in Decision 2006-083, AG filed an Attachment showing the existing placeholders. The Board notes that AG identified the ROE amount of \$18.884 million as a forecast 2007 placeholder subject. This amount was subject to revision pending the determination of the 2007 ROE amount in accordance with the ongoing provisions of Decision 2004-052,²⁰ Generic Cost of Capital.

On November 27, 2006, the Board issued Order U2006-292²¹ which determined the ROE for 2007 to be 8.51%. As a consequence of that Order, the Board directs AG, in the compliance refiling to this Decision, (the Third Compliance Filing) to forecast a revised ROE for 2007 along with the commensurate effect on income taxes and to reflect the revised amounts in the forecast of 2007 revenue requirements.

2.5 Board Direction 40 – Add back Administrative Expenses to Account 721

The CG indicated it was not possible for it to verify from the schedules provided in the Second Compliance Filing, the adjustment to account 721 as had been directed by the Board. AG, in response, provided a table that showed how the adjustment was calculated. The table showed that the adjustment was the difference between the amount approved by the Board in Decision 2006-083 and the amount filed by AG in the Compliance Filing in response to Direction 40.

The Board has reviewed the submissions and is satisfied that AG has provided a satisfactory explanation and is in compliance with the Board's direction.

2.6 Head Office Costs

AG filed Application 1481898 for a R&V of Decision 2006-004 and Decision 2006-083 in regards to the forecast amounts for 2005, 2006 and 2007 Administrative Expense Account 721. In particular, one area of specific concern was Head Office Costs. In response to AG's R&V Application, on October 23, 2006, CG filed its comments related to AG's R&V. The CG indicated that it "would be amenable to adjusting Decision 2006-083 to reflect the impact of the changes in Head Office allocation percentages approved by the Board.

AG noted that the Board stated, at page 71 of Decision 2006-004, the following:

The Board notes AG's submission regarding ATCO/CU Corporate Administrative expenses cost allocation percentages for the test years. The Board notes that parties did not provide argument regarding the allocation percentages. The Board has reviewed the allocation factors proposed for the sharing of ATCO/CU Corporate Administrative expenses to the utilities, and finds the proposed percentage allocation to AG is reasonable. However, certain costs used in the derivation of those percentages will remain as placeholders pending the outcome of the Common Matters proceeding.
(footnote removed)

²⁰ Decision 2004-052 – Generic Cost of Capital - AltaGas Utilities Inc., AltaLink Management Ltd. ATCO Electric Ltd. (Distribution), ATCO Electric Ltd. (Transmission), ATCO Gas, ATCO Pipelines, ENMAX Power Corporation (Distribution), EPCOR Distribution Inc., EPCOR Transmission Inc., FortisAlberta (formerly Aquila Networks), Nova Gas Transmission Ltd. (Application 1271597) (Released: July 2, 2004)

²¹ Order U2006-292 – Board Initiated Proceeding 2007 Generic Return on Equity Formula Result (Application 1487360) (Released: November 27, 2006) (Errata Released: November 30, 2006)

In Decision 2006-083 at page 10, the Board stated:

...However, AG incorrectly made an adjustment related to Head Office Costs. AG is directed to use Appendix A for Account 721 in its second refiling.

When developing Appendix A, the Board omitted to give recognition to the specific approval it had provided in Decision 2006-004 with respect to the Head Office Costs. To reach its conclusion as stated in the previous quote from Decision 2006-004 the Board reviewed pages 4.3-48 to 50 and Tab 4.4 of the GRA Application. In particular the Board noted that AG explained that, as a result of the changes to percentage allocation, the Head Office Costs forecast for 2005 increased by \$838,000 over 2004 actuals. Given the Board’s acceptance of the percentage allocation the Board approves the “Total approved adjustments for add-back” to Account 721 as shown on Table 4 below in addition to that shown on Appendix A in Decision 2006-083. The adjustment relates only to the change in percentage allocation as identified by AG and shall not be construed in any way as a predetermination of the substantive matters which are the subject of AG’s R&V Application. The adjustment is shown in the following table.

Table 4. Head Office Costs (\$000s)

	2005			2006			2007		
	North	South	Total	North	South	Total	North	South	Total
2004 Actuals	1,756	1,907	3,663						
Deduct for Annualization**	(76)	(75)	(151)						
Add Inflation (2005: 2.2%, 2006: 2.2%, 2007: 2.1%)	37	40	77	38	41	79	37	40	77
Add Adjustment for % allocation*	402	436	838	402	436	838	402	436	838
Inflation on % allocation				9	9	18	9	9	18
Total approved adjustments for add back	363	401	764	449	486	935	448	485	933
** 2004 Head Office Costs in 2003/2004 GRA Filing	1,839	1,810	3,649						
Annualization of reduction to Administration expense (GRA Filed x 10% x5/12)	(76)	(75)	(151)						

*North/South split based on proportion of 2004 actuals of \$1,756,000 (North), \$1,907,000 (South), \$3,663,000 (Total)

In the Third Compliance Filing, the Board directs AG to file a revised Schedule 4.3 (BR-AG-3 Attachment in the Compliance Filing) showing the final approved amounts for the operating and maintenance accounts for AGN, AGS and total AG for the test years.

2.7 Changes in Income Tax Rates

The CG considered that AG complied with the Board’s Direction 2 and reduced the Alberta corporate income tax rate in 2006 and 2007, using the rates as subsequently enacted. However, the CG submitted that AG should further adjust its tax provision in 2006 and 2007 to eliminate the large corporations tax (LCT), as set out in the Federal Budget of May 2, 2006. The CG noted that AG had forecast the following amounts:

	2006	2007
AGN ²²	\$702,000	\$369,000
AGS ²³	\$687,000	\$356,000

²² Second Compliance Filing, Schedule 6.0-A

²³ Second Compliance Filing, Schedule 6.0-F

While AG complied with the Board's Direction concerning the reduction in the rate of Provincial income taxes for 2006 and 2007, 10.37% and 10%, respectively, AG submitted that the Board incorrectly interpreted the facts that lead to its Direction. AG considered that changes to income tax rates are not unique changes requiring special consideration as compared to other items that affect revenue requirement. AG submitted that income taxes are no different than any other forecast cost in the revenue requirement that is not subject to deferral account treatment and like other costs should not be adjusted after the evidentiary portion of the process has been completed. Accordingly, AG also submitted that the Board should reverse its Direction 2 and allow AG to use the provincial tax rate of 11.5% included in the original GRA. For similar reasons, AG disagreed with CG's position that the LCT forecast for 2006 and 2007 in the original GRA should be eliminated.

Views of the Board

The Board made a determination on the change in the Provincial income tax rate in the Compliance Filing decision – Decision 2006-083. The Board was aware when it made its findings in Decision 2006-083 that notice of the reduction in the Alberta corporate income tax rate to 10%, effective April 1, 2006, was made in the 2006 Provincial Budget in March 2006, a date which was after the close of record for the proceeding.

Generally, any revisions proposed to be made to AG's forecasts subsequent to the close of record would require a separate application for a review and variance on the basis of the presence of new facts impacting a test year that were not available at the time that the record closed. This new evidence would then be the subject of testing by all interested parties to ensure that any revenue requirement revisions would be fair and reasonable under the circumstances.

The Board acknowledges that in future it would provide parties with greater certainty and enhance consistency of decisions if the close of record date was regarded, absent extraordinary circumstances, as the last date where new facts or a change of laws should be considered by the Board in making its initial decision. Accordingly, a material change in facts or law occurring after the close of the record date should be considered, in the ordinary course, by way of a review and variance application.

In the present circumstances, there is little doubt that the change in Alberta provincial income tax rates would have been a relevant material fact applicable to a test year, not known at the time the record closed with respect to the original application. Accordingly, the Board sees no gain to ratepayers or to the utility in maintaining the income tax rate contemplated in the original application, thereby inviting a review and variance application. This finding is reinforced when it is considered that AG's approved method for determining the income tax component of revenue requirement is to take the legislated income tax rate and to apply them to a forecasted revenue which is then flowed-through to customers. AG is at risk with respect to the actual revenue received, not with respect to the rate of tax applicable to that income. This flow-through method is predicated on the basis that income taxes included in revenue requirement reflect amounts that are payable under applicable income tax legislation. Use of the reduced Alberta corporate income tax rate would therefore conform better to the principle underlying the flow-through method. Therefore, the Board considers that reducing the revenue requirements forecast in 2006 and 2007 in respect of the reduction in the Alberta corporate income tax rate remains appropriate and will not vary its determination set out in Direction 2.

With regard to the LCT, which was a tax on capital, the Board will not require AG to adjust revenue requirements for 2006 and 2007 to reflect the elimination of the LCT, effective January 1, 2006. In AG's forecasts of federal income taxes, the Board notes that the amounts for the federal surtax, which rate amounts to 1.12% of federal taxable income in 2006 and 2007, were indicated to be significantly lower than the amounts that would have been expected for the calculations of that tax for each of AGN and AGS in the test years. The Board, however, recognizes that the surtax could be applied as a credit to the LCT otherwise payable in the year and that AG did not appear to have directly made such application in the determination of the LCT forecast for 2005, 2006 or 2007. The surtax and surtax credits would in effect have been offsetting amounts. Consequently, the Board considers that the apparent net adjustments to 2006 and 2007 for the elimination of the LCT and the corresponding increase in the federal surtax would not have a material effect on the revenue requirement in those years and accordingly the Board shall not require an adjustment.

2.8 Schedule C Charges – Decision 2006-075²⁴ ATCO Gas Phase II

In the Common Matters compliance filing, AG provided the following information:

In its second compliance filing related to the 2005-2007 GRA, ATCO Gas included additional revenue resulting from revised Schedule C charges per Board Direction 2 from Decision 2006-075. ATCO Gas reflected the revenue requirement impact of the change to contributions as an increase in other utility revenues. In hindsight, ATCO Gas should have updated the customer contribution forecast for 2007 and let the revenue requirement impact flow from there. ATCO Gas has corrected the treatment of this filing by removing the revenue requirement impact from other utility revenues in 2007 and increasing the contribution forecast.²⁵

The Board agrees with AG that the correct treatment of the Schedule C charges for Service Lines is for those amounts to be shown in the forecast as a contribution rather than additional revenue as shown in the Second Compliance Filing.

The Board directs AG, in the Third Compliance Filing, to reflect the additional revenue derived from the revised Schedule C charges as a contribution toward capital expenditures and the related effect on the refund/shortfall for 2007.

2.9 Calgary Stores Block Refund

In Decision 2006-083, the Board directed the payment to AGS of an amount equal to \$361,665, plus interest for a total of \$483,316, representing the accumulated depreciation component of the Calgary Stores Block sale proceeds which had previously been allocated to AGS customers pursuant to Decision 2002-037²⁶ as amended by Decision 2004-030.²⁷ Decisions 2002-037 and 2004-030 were amended accordingly.

²⁴ Decision 2006-075 – ATCO Gas 2003-2004 General Rate Application Phase II Part 2 Terms and Conditions of Service (Application 1416346) (Released: July 27, 2006)

²⁵ Application 1488087, pp. 6-7

²⁶ Decision 2002-037 – ATCO Gas and Pipelines Ltd. Disposition of Calgary Stores Block and Distribution of Net Proceeds - Part 2 (Application 1247130) (Released March 21, 2002)

²⁷ Decision 2004-030 – Addendum to Decision 2002-037 ATCO Gas and Pipelines Ltd. Disposition of Calgary Stores Block and Distribution of Net Proceeds – Part 2 (Application 1247130) (Released: March 30, 2004)

AG stated that on Schedule A of the GRA, the amount indicated at page 1 did not include interest. In Reply Argument, AG acknowledged its error and accepted the calculation provided by CG regarding interest as follows:

Table 5. Interest Calculation Stores Block Refund

Year	1 Opening Balance	2 Closing Balance	3 Mid-year Average	4 WACC	5 Interest Amount
2004	\$0	\$361,665	\$180,833	8.263%	\$14,942
2005	\$361,665	\$361,665	\$361,665	7.961%	\$28,792
2006	\$361,665	\$0	\$180,833	7.734%	\$13,986
Total					<u>\$57,720</u>

The Board acknowledges that its provision for interest as determined in Decision 2006-083 was in error and that the Table 5 above reflects the correct interest calculation. Therefore, the interest amount related to the Calgary Stores Block refund is amended to \$57,720 and the revised refund amount including interest is \$419,385. The Board directs AG to reflect this total as the refund amount in the Third Compliance Filing.

2.10 Daily Forecasting and Settlement System (DFSS)

In Application 1411635,²⁸ AG requested approval of the following with respect to the DFSS:

- that the DFSS be approved for inclusion in rate base commencing in the year 2006 for the purpose of obtaining test data and assessing model accuracy as well as other functions the system will be used for; and
- that ATCO Gas be allowed to adjust its 2006 and 2007 GRA revenue requirement forecast to reflect the inclusion of DFSS in rate base commencing in the year 2006.

The Board dealt with that requested approval in Decision [2006-098](#)²⁹ and its Errata, wherein the Board determined that there would be no revenue requirement impact in 2005 or 2006, and that the net 2007 revenue requirement impact would be a credit to AGS customers of \$110,000 and a credit to AGN customers of \$113,000. The Board directs AG, in the Third Compliance Filing, to reflect the adjustments to revenue requirement relating to DFSS approved in Decision 2006-098 and the Errata thereto.

2.11 Revenue Over/Under Recovery

AG requested a deferral of the forecast revenue over-recovery shown on the amended Schedule A to the Second Compliance Filing to be dealt with in 2007 pending a decision on the AG Phase II application for changes in rates. AG proposed that a deferral was reasonable since the amount of the forecast refund was insignificant and that numerous other changes to revenue requirements were pending on the results of related decisions. The Board notes that parties did not object to AG’s request for deferral of the forecast over-recovery.

²⁸ Retailer Service and Gas Utilities Act Compliance Phase 2 Part B, Customer Account Balancing and Load Balancing

²⁹ Decision 2006-098 – ATCO Gas Retailer Service and Gas Utilities Act Compliance Phase 2 Part B Customer Account Balancing and Load Balancing (Application No. 1411635) (Released: October 10, 2006) (Errata released: November 7, 2006)

The Board considers that the amount of the forecast over-recovery/shortfall will require revision as a consequence of the changes in this Decision, Decision 2006-095³⁰ and the result of the Board's decision on Application 1488087, the Common Matters compliance filing. Accordingly, the Board considers that the Third Compliance Filing should follow and incorporate the results of the Board's decision in respect of the Common Matters compliance filing.

Therefore, the Board will defer a decision on the treatment of the revenue over-recovery/shortfall until it decides on the disposition of the Third Compliance Filing.

3 EFFECT OF DIRECTIONS IN THIS DECISION

The Board does not expect that the directions in this Decision will have a significant effect on total revenue requirement or forecast revenues and accordingly has not considered directing an amendment to the interim rates currently in place for AGN or AGS.

The Board directs AG to provide a summary of the changes to the revenue requirement in a format as indicated on the attached [Schedule A](#). If AG considers that it can add further clarity to the changes over the course of the various refilings and other proceedings, AG can provide further detail than what is indicated on Schedule A.

³⁰ Decision 2006-095 – ATCO Pipelines 2006 Other Pipeline Receipt Deferred Account (Application 1458812)
(Released: September 26, 2006)

4 ORDER

IT IS HEREBY ORDERED THAT:

- (1) ATCO Gas file a Third Compliance Filing along with the appropriate schedules within 15 days after the Board issues its decision related to Application 1488087, the Common Matters compliance filing. The filing shall include schedules showing the final approved operating and maintenance expenses by prime account and function for each test year as shown in response to BR-AG-3, Schedule 4.3, (April 25, 2006) and an overall summary schedule as per the attached Schedule A.
- (2) ATCO Gas file a summary of the remaining placeholders and amounts for each, updating the placeholder summary filed in the First Compliance Filing on March 17, 2006.

Dated in Calgary, Alberta on December 28, 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

SCHEDULE A – ATCO GAS 2007 REVENUE SHORTFALL

[\(Return to text\)](#)



Schedule A - ATCO
Gas 2007 Revenue St

(Consists of 1 page)

	1	AGS 2	AGN 3	4
	Item	Amount	Amount	Reference/Reason
1	GRA Application Revenue Requirements #1400690			Application #1400690
2	Revenue on Existing Rates			
3	Revenue Shortfall as per Application			
4				
5	Changes to comply with Decision 2006-004			
6	Utility Income			
7	Operating Expense reductions			
8	Depreciation reduced			
9	Reduction in Income Taxes			
10	Net Reduction in Revenue Requirement			
11	Revenue Requirement adjusted for First Compliance Filing #1452948 Decision 2006-083			
12	Adjustment to Revenue			
13	Revenue Shortfall to First Compliance Filing #1452948			
14				
15	Application 1478363 Second Compliance Filing to Decision 2006-083 Changes to Revenue Requirements			
16	Utility Income			
17	Operating Expenses			
18	Income Tax			
19	Total Adjustments in Second Compliance Filing			
20	Revenue Requirement adjusted for Second Compliance Filing items			
21	Adjustment to Revenue			
22	Revenue Shortfall to Second Compliance Filing			
23				
24	Adjustments from Second Compliance Filing			
25	Revenue Requirements per Second Compliance Filing			
26	Common Matters Decision 2006-100			
27	2005			
28	2006			
29	2007			
30	Total Resulting from Common Matters			
31				
32	Other timing Adjustments from other years			
33	2005/2006 net shortfall (refund) in Decision 2006-100			
34				
35	Additional Adjustment to Third Compliance Filing			
36				
37				
38	Total Additional Adjustments to Third Compliance Filing			
39	Revised Revenue Requirements in Third Compliance Filing			
40	Revenue on Existing Interim Rates (@ June 30, 2006)			
41	Schedule C Charges			
42	Additional Revenue on 2007 approved billing determinants resulting from realigned rates in Aug 2006			
43	Revised Revenue on Existing rates (realigned in Decision 2006-078)			
44	Shortfall/Refund 2007 including all adjustments			
45				
46				
47				
48				