Decision 2005-039

ATCO Gas

2003/2004 GRA
Impact of the Retail Transfer and ITBS Volume Forecast

May 3, 2005

Alberta Energy and Utilities Board

ALBERTA ENERGY AND UTILITIES BOARD
Decision 2005-039: ATCO Gas
2003/2004 GRA – Impact of the Retail Transfer and ITBS Volume Forecast
Application No. 1355457

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1 INTRODUCTION

On June 15, 2004, the Alberta Energy and Utilities Board (the Board) issued Decision 2004-047 regarding the 2003/2004 Phase I General Rate Application (GRA) of ATCO Gas (ATCO or AG or the Company). In Decision 2004-047, the Board noted that ATCO had identified amounts of $90.695 million (2003) and $93.153 million (2004) included in the revenue requirement as placeholders, and recognized that the revenue requirement for the test years would be impacted by the outcome of various ongoing proceedings and benchmarking processes to address related matters. The Board also acknowledged that further adjustments to the revenue requirement would be necessary to fully reflect the impact of the transfer of the retail function to Direct Energy Regulated Services (DERS) which closed on May 4, 2004 (the Retail Transfer), and related unbundling proceedings.

Accordingly, pending further adjustments arising from these subsequent processes, Decision 2004-047 approved ATCO's 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 (North).

On July 30, 2004, ATCO filed an application (the Application) with the Board addressing the impact, on the 2003/2004 revenue requirement, of the transfer of the retail function to DERS, and the customer care volume forecasts for services provided by I-Tek Business Services Ltd. (ITBS, formerly ATCO Singlepoint) for 2003 and 2004.

By letter dated August 18, 2004, the Board advised interested parties that the Application would be dealt with by way of a written proceeding and established the following schedule for the process:

Information Requests to ATCO	September 7, 2004
Information Responses from ATCO	September 27, 2004
Intervener Argument	October 15, 2004
ATCO Reply Argument	November 5, 2004

By letter dated October 19, 2004, the Board extended the process to provide for a second round of information requests, and comment by November 10, 2004 on the need for submission of intervener evidence. With the completion of the second round of information requests and absence of comment on the need for submission of intervener evidence, the Board, by letter dated November 15, 2004 confirmed the schedule for the remainder of the process as follows:

Intervener Argument	November 26, 2004
ATCO Reply Argument	December 17, 2004

By November 29, 2004, the Board received written argument from the City of Calgary (Calgary) and a joint submission from the Alberta Urban Municipalities Association and the Public Institutional Consumers of Alberta (AUMA/PICA). On December 16, 2004, ATCO filed its reply to the submissions of the interveners.

On January 28, 2005 the Board requested comments from parties on the possible merger of the records relating to the Application and application No. 1355435 (ATCO Electric Ltd. – 2003/2004 General Tariff Application Impact of the Retail Transfer and ITBS Volume Forecast). On February 2, 2005 the Company and ATCO Electric (or AE) filed correspondence with the Board noting their concerns with combining the record of the two proceedings. As a result of the concerns expressed, the Board has not combined the record of the two proceedings. The Board considers that the record for this proceeding closed on February 2, 2005.

2 APPLICATION OVERVIEW

In the Application, ATCO indicated that, incorporating the impact of unbundling of rates and charges, and adjustments to ITBS forecast volumes, resulted in an increase in the 2003 revenue requirement of $197,000 (North) and $199,000 (South). The impact of the Retail Transfer in May 2004 with consequential additional implications for unbundling of rates and charges, and adjustments to ITBS forecast volumes resulted in a decrease in the 2004 revenue requirement of $6.872 million (North) and $6.500 million (South). ATCO also updated the revenue on existing rates to reflect the impact of rate unbundling and other revenue changes related to the Retail Transfer. Reduction of interim distribution rates approved in Decision 2003-108, 2003 Gas Rate Unbundling, dated December 18, 2003 (Unbundling Decision),[1] combined with other adjustments to revenue as proposed in the Application resulted in a decrease in revenue, for 2004 only, of $8.714 million (North) and $8.423 million (South). ATCO noted that the net result of the proposed adjustments was an increase over the 2003/2004 period in the revenue shortfall of $2.039 million (North) and $2.122 million (South). In the Application, ATCO requested approval of the revised 2003/2004 revenue requirement and recovery of these shortfall amounts from customers. See Section 5.6 of this Decision for further discussion on this issue.

In the Application, ATCO indicated that the Unbundling Decision approved the principles relating to the unbundling of the distribution rates and impact on the revenue requirement arising from the Retail Transfer. The Decision established adjustments to interim rates that took effect on March 28, 2004, the date of the first billing by a retailer using the "One Bill Model".

3 ISSUES ARISING FROM THE APPLICATION

The 2004 revenue requirement approved in Decision 2004-047, included placeholder amounts relating to volume forecasts and unit prices for customer care functions provided by ITBS. The Application addressed the volume forecasts for ITBS in light of the Retail Transfer. Pricing for ITBS services, however, was not addressed in the Application and is to be addressed through a

[1] Decision 2003-108 was amended by Decision 2004-004 Errata to Decision 2003-108, dated January 16, 2004

separate benchmarking process. ATCO provided revisions to the approved revenue requirement based on the revised customer care function volume forecasts, and updated schedules for North and South to reflect the impact of the adjustments proposed.

As a result of the Unbundling Decision the revenues in 2004 were reduced, which ATCO claimed had the net effect of increasing the shortfall in both the North and the South. The Board notes that the adjustments proposed in the Application are different than those directed in the Unbundling Decision.

The following sections address the issues arising from the Application.

3.1 Applicability of Decision 2003-108

Expenses that were discussed in the Unbundling Decision were used to set interim rates based on the Board's determinations as set out in the following table. The amounts shown in the table were annual amounts taken from the most recent ATCO Gas South (AGS) cost of service study (COSS) and were applicable to each of AGS and ATCO Gas North (AGN). The amounts were to be removed from the charges of the Pipe Service Provider (PSP) function as being more aligned with the Default Service Provider (DSP) function

Table 1. Decision 2003-108: Unbundling Estimate

($000)					
Gas Supply Management	Customer Communication	Administration Costs	Customer Care (ITBS)	FTEs*	Total
51	450	2,200	6,984	400	10,085

*full time equivalent employees

Views of the Applicant

ATCO noted the position of AUMA/PICA that the Board had pre-determined the issues and established principles with respect to the Retail Transfer, which ATCO submitted was simply unsupportable in the context of Decision 2003-108. ATCO considered that interveners had failed to adduce any evidence to prove that the costs applied for in the Application were imprudent. ATCO submitted that, failing such a demonstration, all the applied for costs must be approved as prudently incurred in accordance with the applicable legislation.

In response to AUMA/PICA's argument that the outcome of the Application had been predetermined, ATCO was not aware of any final decisions established in Decision 2003-108 with respect to the impact of the Retail Transfer on the ATCO 2004 revenue requirement forecast, and indicated that this was supported by the comments of the Board at page 27 of Decision 2003-108 including the comment that "…when the Retail Sale closes, the Board considers that all impacts of the Retail Sale can be reviewed in the final ATCO Gas 2003/2004 GRA compliance filing...."

ATCO submitted that the Board made it abundantly clear that the adjustments in that Decision were for the purposes of determining interim, refundable rates, and that further proceedings would be required to finalize these matters, which are the subject of the present Application and that none of the issues in the Application were pre-determined by Decision 2003-108.

ATCO stated that had the Company been given any indication that these matters would not be reviewed in a subsequent proceeding, it is likely that a Review and Variance of Decision 2003-108 would have been requested. ATCO pointed out that it was mandatory that the Company be allowed to recover all prudently incurred costs related to the distribution of natural gas, and that the purpose of the Application was to confirm what those costs are.

ATCO submitted that the purpose of the proceeding which resulted in the Unbundling Decision (Unbundling Proceeding) was to identify the components of revenue requirement that should be recovered through the Gas Cost Recovery Rate, rather than through the delivery rates. The fact that this was done on an interim basis, with the expectation on the part of the Board that these costs would be finalized through additional processes should be clear from the Board's language in the Unbundling Decision.

Reference is made to Table 2 below. ATCO submitted that the effect of the Unbundling Decision, which effected rates as of May 1, 2004, was to reduce revenues on an interim basis by $13.2 million in 2004 for AGS and AGN on a combined basis. ATCO indicated that in the current Application the appropriate reduction, when all things were properly taken into consideration, should have been $9.4 million for AGN and AGS combined. ATCO further submitted that the reduction increased to $10.9 million if the 11.1% reduction[2] directed by the Board in Decision 2002-069[3] in respect of the 2001 and 2002 test years, was extended and applied in 2004. ATCO did not support the extension of the 11.1% reduction pending benchmarking. Furthermore, ATCO reduced its 2004 revenue requirement by $893,000 related to the removal of energy revenues from the allocation formula. ATCO pointed out that, as this change would also have occurred as a result of the Retail Transfer, this amount should also be taken into consideration, resulting in a total reduction of $11.8 million. ATCO therefore considered that while the components of the reductions to its 2004 revenue requirement were somewhat different from the items identified in the Unbundling Decision, on a total cost basis, the effect on customers was very similar. ATCO submitted that to suggest that the Company should be required to further reduce costs by all or some portion of the $6.1 million of reductions identified in the Unbundling Decision related to customer communication, customer servicemen and front counter staff (FTEs) and administration costs was arbitrary and capricious, unsupported by any hard evidence, and therefore, contrary to the *Gas Utilities Act*[4] which require that ATCO recover all of its prudently incurred costs.

[2] ATCO noted that the 2002 revenue requirement used in the Unbundling Proceeding did not incorporate the 11.1% reduction to the ITBS charges, and as such, the $10.9 million is the more appropriate comparison.

[3] ATCO Group – Affiliate Transactions and Code of Conduct Proceeding. Part A: Asset Transfer, Outsourcing Arrangements, and GRA Issues, dated July 26, 2002

[4] RSA c. G-5, as amended

Table 2. 2004 Revenue Requirement Impact

	($000)		
	AGN	AGS	Total
Unbundled Rate Reduction	-6,618	-6,555	-13,173
Revenue Shortfall	1,842	1,923	3,765
Revised Reduction A	-4,776	-4,632	-9,408
Effect of extension of 11.1% reduction advocated by interveners			-1,500
Revised Reduction B			-10,908
Effect of removal of energy revenues			-893
Revised Reduction C			-11,801

ATCO considered that interveners now sought to do indirectly what they were told by the Board in Section 4 of Decision 2003-098[5] that they could not do directly; (i.e. use a portion of the transfer proceeds to offset the impact of increased costs on customers).

ATCO noted that the legislative environment that the Company now finds itself operating under had changed significantly in the last several years. Specifically, the separation of the regulated retail function from the distribution function has resulted in the establishment of a revenue requirement for retail service on a fully allocated cost basis. ATCO indicated that the Company could only shed incremental costs associated with the functions for which it will no longer be responsible, which will lead to increased costs for customers, a consequence clearly contemplated by legislation.

ATCO pointed out that it has a legislated right to recover all prudently incurred costs related to the provision of distribution service. ATCO stated that this Application identified the costs that are still required to provide distribution service, including overheads, which are no less prudently incurred today than they were when they were approved in the most recent GRA. ATCO reiterated the comment that no intervener evidence had been led to support bare assertions that costs should be less than forecast in the current Application, and that in the absence of a demonstration of imprudence, the recovery of these costs in rates needed to be permitted. Accordingly, ATCO submitted that the Application should be approved as filed.

Referring to Calgary's position that the reduction in the expenses of AGS was less than $1.3 million,[6] excluding reductions related to ITBS, ATCO questioned why Calgary considered it appropriate to exclude the reduction in ITBS charges. ATCO pointed out that ITBS performed a significant portion of the functions related to retail service for ATCO. ATCO also disagreed with the calculation of the $1.3 million reduction, noting that the amount should be $1.5 million, as Calgary had incorrectly included the increase in costs of $200,000 for ITBS charges in 2003. ATCO explained that there was a forecast reduction from the original GRA forecast of $317,000 in the 2003 ITBS charges, half of which related to the South. ATCO noted that Calgary

[5] ATCO Electric Ltd., ATCO Gas North and ATCO Gas South, Both Operating Divisions of ATCO Gas and Pipelines Ltd. - Transfer of Certain Retail Assets to Direct Energy Marketing Limited and Proposed Arrangements with Direct Energy Regulated Services to Perform Certain Regulated Retail Functions, dated December 4, 2003

[6] The Board understands Calgary's calculation is $6.500 million (total south reduction) less $5.172 million (total Customer Accounting reduction including Bad Debts)

acknowledged the $317,000 reduction later in Argument, but did not take it into consideration when computing the $1.3 million reduction.

Views of the Interveners

AUMA/PICA

AUMA/PICA submitted that ATCO had, in a number of instances, disregarded the principles established by the Board in Decision 2003-108, apparently on the basis that the resulting rates were only interim in nature. AUMA/PICA considered that, although the rates were interim, the principles relating to cost allocation were not, and that in effect, ATCO was attempting to re-argue issues raised and determined in a comprehensive fashion by the Board in that Decision. AUMA/PICA stated that, if and to the extent that ATCO was dissatisfied with the Board's decision, it should have applied for a review and variance of the decision.

AUMA/PICA cited the following examples where ATCO, without authorization, had disregarded the litigated and fully tested results of that written process and had not reduced the following costs:

- Communication costs, as directed at page 37 of Decision 2003-108;
- the cost of 2.8 FTEs for customer servicemen, as directed at page 38 of Decision 2003-108; and
- the 20% reduction to administration costs, as directed at page 38 of Decision 2003-108.

These matters are addressed in further detail in the following sections of this Decision.

Calgary

Calgary noted that there was less than $1.3 million reduction in the expenses of AGS, excluding the reduction related to ITBS proposed by ATCO. Calgary submitted that at the very least, all of the reductions in expenses approved in Decision 2003-108 should be incorporated into this decision.

Calgary submitted that the Board would have to resolve the issue of whether Decision 2003-108 governs this application or whether the ATCO approach of ignoring or challenging Decision 2003-108 is appropriate.

Views of the Board

In the Unbundling Decision the Board determined that it was appropriate to divide ATCO costs between the distribution or PSP function and the DSP function. For the purposes of setting Interim Rates prior to the Retail Transfer, ATCO's DSP costs were to be collected through the gas cost recovery rate (GCRR) mechanism. Following the Retail Transfer the GCRR would be superseded by DSP rates and these types of costs would no longer be incurred by ATCO.

In the Unbundling Proceeding ATCO proposed that certain costs could be transferred to the DSP from the PSP. The interveners proposed that certain other costs should also be transferred and in some circumstances the Board agreed. In almost all cases the ATCO Gas South (AGS) 2002 COSS was used to assess the costs to be transferred. As there was no COSS for the North the costs associated with AGS were used as a surrogate for the North. In some cases the reductions determined to be used to establish the interim rates were annual values taken from the COSS.

The findings of the Board in the Unbundling Decision as to what types of costs are appropriately PSP costs and which are DSP Costs were intended to be carried forward in determining appropriate cost structures for ATCO both prior to and subsequent to the Retail Transfer. However, the specific cost reductions determined by the Board in the Unbundling Decision as being appropriate for interim rates were not intended to be carried over in a wholesale manner or to serve as a minimum cost reduction in establishing the 2003/2004 revenue requirement for ATCO's PSP functions. The fact that the costs assessed for this purpose were both annual and taken from 2002, make it clear that the interim rate reductions would not be appropriate for use in setting the revenue requirement for 2003/2004

It should also be clear to all interested parties that, while the Board may make certain determinations in this Decision, it is a transitional period for ATCO as it moves from being a fully integrated distribution utility to that of a PSP alone, and therefore it will likely be appropriate to revisit some aspects of the Decision in future proceedings as ATCO's business stabilizes.

4 MATTERS IMPACTING RATE BASE

Views of the Applicant

ATCO reflected the receipt of the royalty related to the ATCO CIS system from ITBS in the amount of $1.2 million, which was received on July 15, 2004. ATCO increased 2004 contributions to rate base for this amount, which was determined in accordance with the License Agreement among AG, ATCO Electric and ATCO Singlepoint Limited, dated effective December 1, 1998, (the License Agreement) that was filed in the Affiliate proceeding and attached to AUMA-AG-01. ATCO indicated that the total amount had been calculated based on $2 per site converted, and was allocated $611,297 equally to North and South.

ATCO updated the 2003/2004 lead/lag schedules to remove revenues related to Gas Cost Recoveries and to recognize the requirement of retailers to pay ATCO within 13 working days of receipt of ATCO's invoice. The updated revenue lag also resulted in an adjustment to the GST working capital lag. ATCO pointed out that the updated lags had been applied to the estimated revenue requirement components as of June 1, 2004.

ATCO also removed gas supply expense from Necessary Working Capital effective June 1, 2004, and the budget plan (PEP) effective May 1, 2004.

Referring to Intervener submissions with respect to the royalty fee, ATCO noted Calgary's concern with respect to the income tax treatment of the fee, and to whether or not the fee related to the default supply customers or to all Direct Energy customers. ATCO indicated that the Company had discussed the income tax treatment of the fee in the Unbundling Proceeding in response to BR-AG-14(g), and had indicated that it proposed to defer the timing difference between amortization of the fee and its recognition as income for tax purposes.

With respect to the specific customers to which the royalty fee relates, ATCO pointed out that the calculation of the fee was provided in the Application, and further clarified in response to CAL-AG-15. With respect to the reference provided by Calgary from Decision 2002-069, ATCO indicated that this issue had been addressed in response to BR-AG-14(d) in the Unbundling Proceeding. ATCO indicated in that response that the royalty fee would be based on the number of customers (of the ATCO utilities) for which ITBS would provide billing and customer care services to DEML. ATCO indicated that no distinction would be made with respect to whether those customers were formerly ATCO Gas, Electric, or Pipelines customers, and that the royalty fee had been calculated on this basis.

ATCO noted that Calgary had advanced a number of positions regarding ATCO-CIS, which suggested a lack of understanding of the License Agreement, and of the previous Board decision which dealt with this matter. ATCO indicated that the ATCO Utilities had not lost their ability to use ATCO-CIS independent from ITBS, and that the ATCO Utilities continued to own ATCO-CIS and were not precluded from using ATCO-CIS for their own purposes. ATCO stated that they continued to have the right to enhance ATCO-CIS or to have ATCO-CIS enhanced on their behalf, and that the ownership of ATCO-CIS and the ATCO Utilities continued right to use it, was clear from a number of the provisions in the License Agreement, a copy of which was provided in the attachment to AUMA-AG-1(b). ATCO noted that the Recitals to the agreement indicate that ITBS wished to license ATCO-CIS to enable it to provide billing services to third parties, and that the ATCO Utilities wished to limit their exposure to liability as a result of those activities.

ATCO indicated that, contrary to Calgary's suggestion, the Company had not contravened any of the relevant legislation, and that in Decision 2002-069, the Board reviewed the MSA between the ATCO Utilities and ITBS, including consideration of the royalty payment scheme as outlined within the License Agreement. Therefore, in approving the affiliate arrangement, both the MSA and License Agreement were approved. Furthermore, ATCO pointed out that in Decision 2002-069, the Board specifically acknowledged the existence of the "corporate arrangement" (i.e., License Agreement) between the ATCO Utilities and ITBS.

ATCO submitted that the ownership and proprietary rights regarding ATCO-CIS were very clear. ATCO Gas and ATCO Electric continue to own ATCO-CIS, and ITBS is a mere licensee. Accordingly, ATCO submitted that its proposed treatment of the royalty amount was appropriate, and that the Board should not accept Calgary's recommendation to delay approval of the royalty fee reflected in the Application.

Referring to the position of AUMA/PICA that the royalty fee paid by ITBS should reflect fair market value, determined through a benchmarking process, ATCO pointed out that the fee was market based, determined on the higher of two expert opinions filed by the ATCO Utilities in the Affiliate proceeding. ATCO submitted that not one intervener filed any evidence to contradict these expert opinions, and noted that the Board approved the agreement for the years 2001 and 2002, despite the fact that alternatives were presented in the Affiliate proceeding. ATCO considered that the License Agreement provided a proper balance between the interest of ratepayers and the costs and risks assumed by ITBS when pursuing third party opportunities. ATCO stated that the royalty was not intended to compensate the ATCO Utilities for the costs of developing the CIS system, which was and continues to be required for the provision of utility service, and has been approved by the Board. ATCO indicated that the CIS system was designed to provide the full functionality required by ATCO in the provision of distribution service to customers, and was not developed with distinct distribution and retail modules. ATCO indicated that, in order for ITBS to use the system to provide service to Direct Energy, a separate retail module was required, and that ATCO was not responsible for any costs related to the development of this module and was not seeking their recovery in its distribution revenue requirement. ATCO pointed out that no new facts or circumstances had been adduced to warrant another review of the License Agreement so soon after the previous review.

With respect to the changed circumstances outlined by AUMA in the Unbundling Proceeding, ATCO did not believe that these circumstances were relevant in determination of whether the royalty fee represented fair market value. The DERS customer care costs were based on EUB decisions, which ATCO assumed took into account all relevant considerations, including the length of the contract between DEML and ITBS.

Regarding AUMA/PICA's comment that the royalty fee would be finalized in 2005, and that ATCO should be required to reflect this update for purposes of its 2004 revenue requirement forecast, ATCO noted that the amount of royalty fee received in 2004 had been incorporated into the Application, and would not change in 2004. ATCO considered it entirely inappropriate to suggest that ATCO update its 2004 revenue requirement to reflect an event that would not occur until the year 2005.

ATCO noted that no parties took issue with the working capital changes identified in the Application.

Views of the Interveners

AUMA/PICA

With respect to the royalty related to the ATCO CIS system, AUMA/PICA noted that ATCO essentially received $2 per site converted from AG and ATCO Electric to DERS pursuant to the Retail Transfer arrangement. AUMA/PICA noted that ATCO proposed to treat the $1.2 million as a contribution to rate base in 2004, and that ATCO believed that the contribution would be fully taxable in 2004 but proposed to defer and amortize the timing difference over five years. AUMA/PICA pointed out that the net impact on revenue requirement from 2004-2009 was provided in response to AUMA-AG-01(c) Attachment No. 1.

AUMA/PICA noted that ATCO had not requested approval of the $1.2 million royalty fee in either Decision 2003-072 or Decision 2003-108, but had acknowledged in response to AUMA-AG-18 that it was seeking approval of the $1.2 million fee in this application. AUMA/PICA noted that the history of the CIS royalty fee dated back to the Affiliated Transactions Proceeding that commenced in 2001.

AUMA/PICA pointed out that the position of AUMA and the City of Edmonton had been summarized at page 45 of the Unbundling Decision. AUMA and the City of Edmonton had outlined a number of circumstances that had changed since the Affiliate Transactions Proceeding, which they considered should be taken into account in establishing the royalty fee. They did not oppose the inclusion of the $1.2 million on an interim basis "pending final resolution of an appropriate fee or alternative compensation scheme through the ITBS MSA Module."

AUMA/PICA considered that the royalty fee paid by an affiliate should reflect fair market value rather than being based on the no harm test espoused by ATCO in the Affiliate Transaction proceeding. AUMA/PICA considered that the most reasonable way to determine fair market value for the use of the ATCO CIS would be to utilize the expertise of the benchmarker that will be retained in 2005 to determine fair market prices for the ATCO I-Tek (or I-Tek) IT services and the ITBS customer care services. AUMA/PICA noted that terms of reference for benchmarking the prices for ATCO I-Tek services were approved in Decision 2004-057 and that a collaborative process was underway with a target for submission of terms of reference for benchmarking the prices for ITBS services during the first quarter of 2005. AUMA/PICA submitted that given the length of time since the royalty fee formula was first filed, there was no urgency to approve the $1.2 million royalty fee at this time and that the amount should be held as a placeholder until the value of the use of the CIS system by ITBS can be properly determined through the benchmarking process.

AUMA/PICA pointed out that, as noted in Clause 4.04 of the Licensing Agreement, attached in response to AUMA-AG-01(b), the number of customers (sites) served by ITBS is to be updated after one year for purposes of determining the fee, and that the revised number of customers must be reflected at a later date, likely sometime in 2005. AUMA/PICA submitted that this update could be combined with the incorporation of the benchmark prices.

Calgary

Calgary expressed concern with ATCO's proposal to treat the royalty fee to be paid in connection with the Retail Transfer as income rather than as a reduction in the UCC pool, and considered it unclear whether the amount received was for the default supply customers or all Direct Energy customers.

Calgary also expressed concern related to the combination of the License Agreement and the 2004 ITBS MSA. In this regard Calgary referred to Decision 2002-069 where the Board noted at page 69, that customers of ATCO Pipelines billed under the CIS system prior to the license agreement did not qualify as a "new client", and that there was therefore no royalty fee applicable. In that Decision, the Board noted that there was no reference to the concept of "new client" in the agreement between AGS and Singlepoint (now ITBS), and considered that the criteria for determining whether a royalty fee was applicable should relate more to the change in the level of Singlepoint's business than the definition of what constitutes a "new client".

Calgary understood that the License Agreement grants to Singlepoint, the exclusive perpetual right to use the CIS software and to enhance or modify the CIS software. In Calgary's view however, due to the legal nature of an exclusive license, if AE and ATCO grant to ITBS, the exclusive rights to use and modify CIS, that "exclusive" license operates at law to exclude AE and ATCO as well. Therefore, while AE and ATCO own the software, they can no longer use or modify CIS as of the effective date of the License Agreement. Calgary submitted that the only party who can modify the License Agreement is ITBS and that the use of the system by ATCO and AE is through ITBS. They have excluded their ability to use it independently from ITBS and in effect therefore, have to obtain a license from ITBS. Calgary submitted that this corporate route was contrary to the *Public Utilities Board Act* paragraph 101(2)(d).

Calgary pointed out that the 2004 ITBS MSA defines the CIS as being part of the Supplier Systems, meaning ITBS, and not the ATCO or AE "client systems".

Calgary pointed out that ITBS only pays a royalty for 10 years, and that therefore, on a perpetual basis ITBS has the sole control and modification of the CIS software, which would also seem to imply that the ownership and control of the CIS would be that of ITBS at the end of the 10 year period.

Calgary submitted that the Board will have to have a clearer understanding of the ownership and property rights of the ATCO CIS that will exist between ATCO, AE and ITBS before approving any royalty amount to be credited to rate base.

Calgary further submitted that there was one item that cannot be easily accomplished in the collaborative process with respect to ITBS pricing. Calgary indicated that this item related to the issue of whether or not ITBS could charge ATCO and AE for ownership or licensing of the CIS software.

Calgary considered that the new 2003 ITBS MSA had fixed part of this problem by including the computing services as part of the fees. However, in Calgary's view, the CIS software asset still remained an issue. Calgary indicated that ATCO had clearly identified that ATCO and AE own[7] the CIS software, which continues to reside in the ATCO rate base.[8] Calgary pointed out however, that the CIS application was not on the list in Schedule "D' – Client Systems in the new 2003 ITBS MSA, although, it was on the list of Client Systems in the 1999 Singlepoint MSA.

Calgary recommended that the Board provide clear guidance to the collaborative benchmarking process committee regarding CIS ownership, enhancement, and maintenance costs including:[9]

- Indicate in the terms of reference and RFP that the CIS system is owned by ATCO and AE and that CIS ownership and enhancement costs are to be excluded from the fair market value (FMV) price of ITBS services.
- Indicate in the terms of reference and request for proposal (RFP) that the CIS system maintenance costs are paid by ATCO and AE under the terms of the 1999 ATCO and AE Singlepoint MSA and paid by ITBS under the terms of the 2003 ATCO and AE ITBS MSA.

Calgary concluded that the royalty adjustment should not be approved until all matters related to the ownership and licensing of the ATCO CIS are resolved.

Views of the Board

The Board notes that AG's share of the royalty fee to be received is based on 60% of $2 per site converted, which was divided equally between AGS and AGN so that each would receive $611,297.

The Board has considered the concerns of Calgary with respect o ATCO's proposal to treat its share of the royalty fee as a contribution to rate base and amortize it over five years rather than a reduction to the UCC pools. However, the Board accepts ATCO's explanation that using the

7 CAL-AG-20 (c) and CAL-AG-2.1 (a) (i)
8 CAL-AG-19 (a)
9 CAL-AG-2.1

UCC pools is not appropriate. Subject to comments following in this section, the Board approves ATCO's accounting treatment.

The Board has considered the intervener's position that the royalty fee should be determined as part of the benchmarking process, however the Board is not convinced that the exercise would be appropriate at this time. It is quite possible that the expense incurred in benchmarking the fee could exceed any positive or negative adjustment to the present amount of the fee. Therefore, the Board will approve the royalty fee for the purpose of finalizing the amount in the 2003/2004 GRA. Should an additional royalty be payable in 2005 as a result of the fee being trued-up in accordance with Section 4.04 of the License Agreement, the Board directs ATCO to include the amount in its next GRA Phase I application.

In addition, the Board notes the discussion of the royalty fee payable to ATCO Electric in Decision 2005-037, dated April 29, 2005:[10]

> The Board notes that the License Agreement and royalty payment level was approved only for use until December 31, 2002 in Decision 2002-069. However, the Board notes that no party has requested a change in the License Agreement or fees in the 2003-2004 GTA.
>
> The Board notes that negotiations for the retail function sale were commenced and completed before any further review of the License Agreement and royalty fee was undertaken.
>
> Accordingly, the Board approves the royalty payment of $815,000 as may be subsequently trued-up in accordance with Section 4.04 of the License Agreement as appropriate for use in the Direct Energy transaction.
>
> The Board, remains concerned however, that the appropriateness of the License Agreement has not been finally determined on a go forward basis. In particular, the Board remains concerned with the quantum of the license fee, the one time royalty fee payment mechanism and the ten year limitation on royalty payments. In this regard the Board notes the provisions of Section 4.02 of the License Agreement that provides in part:
>
>> Notwithstanding any other provision of this Agreement, the payment obligations of LICENSEE under this Article IV shall be payable for ten (10) years after the Effective Date after which the use of the Licensed Programs by LICENSEE shall be fully paid up.
>
> The Board notes that the Effective Date was December 1, 1998.
>
> In light of these concerns, the Board considers that it would be appropriate for AE, in conjunction with ATCO Gas, to conduct a fair market value review of the royalty fee provisions of the License Agreement prior to the closing of any future significant transaction which might involve a royalty payment to AE and ATCO Gas by I-Tek.
>
> Accordingly, the Board directs ATCO Electric, in conjunction with ATCO Gas, to file an application with the Board addressing the continued appropriateness of the royalty fee

[10] ATCO Electric Ltd. 2003/2004 General Tariff Application - Impact of the Retail Transfer and ITBS Volume Forecast, pp. 7-8

> provisions of the License Agreement prior to the closing of any future significant transaction which might involve a royalty payment to AE and ATCO Gas by I-Tek. In addition, if the appropriateness of Section 4.02 of the License Agreement has not been addressed prior to January 1, 2007, the Board directs AE, in conjunction with ATCO Gas, to apply to the Board with a request for the Board to consider the appropriateness of the expiration of the royalty fee payment obligation set out in Section 4.02 of the License Agreement in light of the continuing value, if any, of the licensed programs.

The division of the Board considering the Application concurs with the above observations and directions set out in Decision 2005-037. Accordingly, the Board directs ATCO Gas, in conjunction with ATCO Electric, to file an application with the Board addressing the continued appropriateness of the royalty fee provisions of the License Agreement prior to the closing of any future significant transaction which might involve a royalty payment to AE and ATCO Gas by I-Tek. In addition, if the appropriateness of Section 4.02 of the License Agreement has not been addressed prior to January 1, 2007, the Board directs ATCO Gas, in conjunction with ATCO Electric, to apply to the Board with a request for the Board to consider the appropriateness of the expiration of the royalty fee payment obligation set out in Section 4.02 of the License Agreement in light of the continuing value, if any, of the licensed programs.

5 MATTERS IMPACTING OPERATING EXPENSES

In the Application ATCO has provided an estimate of various costs that would be used to adjust the revenue requirement in the 2003/2004 GRA. ATCO proposed the following adjustments:

Table 3. Impact of Retail Transfer Proposed by AG

	($000)		
Item	AGN	AGS	ATCO Gas Total
Gas Management	-335	-336	-671
Customer Communication	-51	-49	-100
General	19	45	64
Administration Costs	-89	-124	-213
Customer Care-ITBS	-4189	-4283	-8472
Bad Debt	-910	-889	-1799
FTEs	0	0	
Total O&M	-5555	-5636	-11191
Utility Income	-790	-554	-1344
Depreciation	-51	-51	-102
Income Tax	-476	-259	-735
Totals	-6872	-6500	-13372

In this section the Board will review these charges and others for the purpose of assessing the impact of the Retail Transfer.

5.1 Gas Management Function

Views of the Applicant

ATCO indicated that the costs related to the gas management fee to Midstream had been removed effective June 1, 2004, and that costs of staff associated with the gas supply function, which were charged to the GCRR function prior to the Retail Transfer, had been reviewed.

As a result of this review, ATCO removed the cost associated with two positions effective June 1, 2004 and a third position effective August 1, 2004, and submitted that the remaining seven positions would be required to perform various specified functions. ATCO pointed out that the Company was in a transition phase with respect to retailer service, and as such, it was critical that the Company not only had sufficient resources, but also the right resources to manage this transition. ATCO indicated that the staff that previously performed the gas supply function had the experience required, and that the Company would be relying on this experience to manage the transition, pointing out that it would be imprudent to attempt to manage the transition with fewer resources or less experienced staff.

ATCO noted Calgary's submission that clarification was required regarding the roles and responsibilities of ATCO and Direct Energy with respect to balancing the system. ATCO pointed out that clarification with respect to the current situation was provided in response to CAL-AG.4, and that, while these roles and responsibilities would likely change as a result of the Retailer Service process, they did not affect the year 2004. ATCO noted that Calgary did not appear to be making any recommendation specific to the costs included in the Application with respect to these functions.

ATCO referred to AUMA/PICA's submission that ATCO should be required to identify the number of FTE's associated with the transition to Retailer Service, and recover those costs through the use of a rider that expires once the transition is complete. ATCO indicated that the issue that AUMA/PICA had not addressed was the fact that ATCO would not know what its staff requirements with respect to Retailer Service will be until the proceedings to address that matter had been completed. It would therefore be premature to identify costs related to the transition to Retailer Service without knowing how the requirements for Retailer Service would impact requirements. ATCO indicted its intent to file a General Rate Application in the year 2005, which would provide an opportunity to review the impact of Retailer Service on the Company. ATCO saw no reason therefore to exclude the costs related to the transition to Retailer Service from the 2004 revenue requirement forecast.

Views of the Interveners

AUMA/PICA

AUMA/PICA noted that, with respect to activities related to retailer service, some would be ongoing, and referred to the response to Cal-AG.4(f) which indicated that *'Development of Retailer Services and supporting documents/processes'* referred to the work required to initially develop Retailer Service anticipated to be implemented October 1, 2005 and the ongoing refinement or enhancement of the service as experience is developed. AUMA/PICA also noted that ATCO anticipated the formation of an industry committee to aid in that development process.

AUMA/PICA submitted that, to the extent that certain work related to transition to retailer services would not continue after the transition was complete, the costs associated with FTEs performing such work should be removed from revenue requirement and base rates. AUMA/PICA submitted that ATCO should be directed to identify the number of FTEs associated with the transition to retailer services and that any associated costs should be removed from revenue requirement and the same costs recovered by way of a separate rider that would expire when the transition is completed.

Calgary

Calgary submitted that there was need for clarification as to the roles and responsibilities of ATCO and DERS in balancing the system before the appropriate cost of each of the two parties could be determined.

Views of the Board

The Board notes that prior to the Retail Transfer the expenses for the Gas Management function were included with the GCRR. During the Unbundling Proceeding there were representations made about the number of staff involved in those activities and how many may be required after the Retail Transfer. ATCO submitted that after review it had reduced the number of full time equivalent employees (FTEs) from 10 to 7 (two as of June 1 and one additional employee reduction as of August 1).

The Board is satisfied that ATCO will require experienced staff to deal with the ongoing business and accepts that ATCO has established the level it required for the 2004 test year. The Board therefore agrees with ATCO's proposal to reduce the gas management expenses by a total of $671,000 for both AGS and AGN and notes that the remaining expenses will be included in the distribution rates that are finalized for the 2004 test year.

The Board also notes the interveners concerns that the roles of ATCO and DERS to balance the system still need to be determined and are subject to the outcome of the Retailer Services process. The Board anticipates that this issue can be revisited in future GRA's once the roles have been clarified and more experienced gained.

5.2 Customer Communications Expenses

Views of the Applicant

Decision 2003-072 reduced the Customer Communications forecast from $5.9 million to $2.9 million. ATCO proposed a further reduction of $100,000 with respect to communication related to the retail budget plan, and explained the rationale for maintaining the forecasts for all other components of communication expense at the level approved in Decision 2003-072.

ATCO noted that in Decision 2003-108, the Board reduced interim distribution rates by $900,000[11] on the basis that much of the customer information previously provided by ATCO related to gas supply, and would in future be provided by the Default Supply Provider (DSP). In the Application, ATCO took issue with the Board's reduction, noting that the decision appeared to have been based on an arbitrary reduction in costs of 10%-20% proposed by AUMA and the City of Edmonton (AUMA/EDM). ATCO pointed out that the $900,000 adjustment in fact

[11] This value is for both AGS and AGN and is two times $450,000.

represented a 30% reduction to the 2004 communications forecast, and that no support had been provided to demonstrate that the reduction was appropriate or reasonable. ATCO stated that a review of marketing materials tabled in the Unbundling proceeding provided a clear indication that very little of ATCO's communication effort related to the default supply function, and that an assumption that the Company devoted 10%-20% of its communication budget to provision of that function was not reasonable, and not supported by the facts.

ATCO presented the results of studies conducted by the Company, which indicated that the average communications budget was $3.5 million for companies (worldwide) with revenues in the $100 million - $580 million range, and that the average ratio of communications budgets to total revenue was 0.75%. ATCO pointed out that its communications forecast of $2.9 million representing approximately 0.75% of total revenue requirement, was well within the average range. ATCO stated that these costs related to the provision of distribution service, and were prudently incurred.

Referring to AUMA/PICA's submission that ATCO's marketing and customer information costs should be reduced by $450,000 for each of the North and South, on the premise that ATCO had failed to demonstrate that none of these costs were related to attracting customers to utility gas service, ATCO indicated that AUMA/PICA appeared to believe that this represented 20% of customer information costs, while in reality, it represented 31%.

ATCO observed that AUMA/PICA did not appear to make any adjustment to this amount to reflect the fact that the Retail Transfer was not in place for a full year. ATCO considered that it had demonstrated how each component of these costs were prudently incurred related to the distribution of natural gas service in the Application. ATCO noted that no intervener evidence had been filed to support a bare assertion of "imprudence", and that they had therefore failed to demonstrate why any portion of these costs should not be recoverable in rates. In addition, ATCO pointed out that absolutely no evidence was provided to justify a decrease in costs of $900,000, or 20%. ATCO identified a reduction in communication costs of $100,000, and had also demonstrated why its remaining costs of $2.9 million were appropriate and in line with costs incurred by other companies. ATCO considered that no further reduction to communication costs had been justified, or warranted. ATCO submitted that more than a mere assertion is required to disallow a utility's prudently incurred costs.

Views of the Interveners

AUMA/PICA

AUMA/PICA noted that, in addition to $3 million of communications costs approved by the Board in Decision 2003-072, the Board, in Decision 2003-108, further reduced ATCO Gas South marketing and customer information costs by $450,000 ($900,000 when ATCO Gas North is included) to reflect the marketing and customer information costs that should be reclassified as DSP costs for recovery through the GCRR or the costs expected to be transferred to Direct Energy Regulated Services following the transfer of the DSP function.

AUMA/PICA stated that, notwithstanding the Board's clear and unambiguous reduction to marketing and customer information costs related to the transfer of the DSP function to DERS, ATCO had decided to argue this issue again. As discussed under General Matters above, AUMA/PICA did not consider it appropriate to reargue the issue or seek a quasi review and variance of this issue in this proceeding. However, AUMA/PICA provided the following comments in the event that the Board decided to re-address this issue.

ATCO asserted that the Board's reduction to marketing and customer information costs was arbitrary and that the costs it incurred are prudently incurred in providing utility distribution service. AUMA/PICA disagreed with that conclusion for the reasons stated in the AUMA/EDM Gas Rate Unbundling Argument and summarized at page 29 of Decision 2003-108. In that proceeding, AUMA/EDM argued that ATCO had failed to demonstrate that none of the $2.259 million of marketing and customer costs were related to attracting customers to utility gas service. Further details were provided at pages 7-8 of the AUMA/EDM argument. AUMA/PICA pointed out that, as noted at page 37 of Decision 2003-108, the Board considered that much of the customer information previously provided by ATCO would be provided by either the DSP or RSP's. AUMA/PICA noted that the Board agreed with the recommendations of AUMA/EDM and CCA that 20% of customer information costs should be reclassified as DSP costs. AUMA/PICA considered that ATCO appeared to be missing the message that it should not be providing the marketing and customer information functions that the Board expected to be provided by the RSP's.

AUMA/PICA submitted that marketing and customer information costs should be reduced by $450,000 for each of AGS and AGN as determined in Decision 2003-108.

Calgary

Calgary concluded that the adjustments should, at a minimum be those approved in Decision 2003-108.

Views of the Board

In the Unbundling Decision the Board found that:

> The Board considers that all costs related to the functions of the DSP should be removed from the distribution rates and recovered in conjunction with the GCRR.
>
> With respect to marketing and customer information, the Board considers that it would be appropriate to allocate some of the existing marketing and customer information costs to the DSP function. The Board notes that a PSP would not have responsibility with respect to the billing envelope. While the PSP would still be expected to provide some customer information, including safety information, the Board considers that much of the customer information previously provided by ATCO Gas will in future be provided by the DSP or RSPs. Notwithstanding ATCO Gas's submission that its delivery of customer information would be more expensive without control of the billing envelope, the Board considers that there should be a significant portion of marketing and customer information costs reclassified to the DSP function.

As noted above the Board agreed that certain costs were appropriately removed from the PSP function in conjunction with marketing and customer information, in particular expenses associated with billing and the GCRR. In this regard the Board notes that ATCO has reduced the Board approved $3 million 2004 GRA forecast for account #701, Advertising, by $100,000 related to the budget plan. However, the Board is of the view that expenses associated with the GCRR should also be reduced but have not yet been accounted for. In the Unbundling Decision the Board had agreed that a 20% reduction was reasonable for purposes of the interim rates, but notes that it had been applied to the sum of expenses from several accounts. The Board is of the view that a 20% reduction should only be applied to account #701 and that it will include reductions related to both the budget plan and the GCRR. The result will represent a further reduction related to the more frequent GCRR advertising. On that basis, 20% of $3 million should be reduced by the period of time in 2004 subsequent to the Retail Transfer. Accordingly, 20% of $3 million will be multiplied by 7/12 resulting in a reduction of $350,000 to the 2004 revenue requirement.

The Board directs ATCO to reduce the revenue requirement for these costs by $350,000 for 2004, reducing the amounts claimed by ATCO from $2.9 million to $2.650 million to be divided between AGS and AGN.

The following table summarizes the position of the parties and the Board's approval.

Table 4. 2004 Revenue Requirement Impact-Customer Communication

Item	($000)			
	ATCO Gas Total	AUMA/PICA	Calgary	Board Approved
Customer Communication	-100	-900	-900	-350

5.3 Forecast Costs Related to Collection Activities of Field Staff

Views of the Applicant

ATCO noted that Decision 2003-108 reduced interim distribution rates by $400,000 representing the costs of 9.8 Credit and Collection FTEs that should be reclassified to the DSP function. This included costs related to 2.8 Field Staff FTEs, determined on a mathematical calculation based on the fact that collection activities make up approximately 1% of responsibilities of 277 customer service employees. ATCO explained that, while the Board reduced interim rates related to 2.8 FTEs for performance of collection services, it was not reasonable to reduce revenue requirement with respect to this item. ATCO's considered it unreasonable to assume that because the Company might be able to reduce the workload of field staff by 5 minutes each day (1% of total labour charges), there was an opportunity to reduce staff. ATCO further maintained that field staff continued to perform collection activities related to non-gas billings, and that these costs continue to be prudently incurred with respect to the distribution of natural gas service.

ATCO indicated that the costs associated with the functions of the remaining 6.5 FTEs had been treated as non-utility commencing June 1, 2004.

ATCO referred to AUMA/PICA's submission that the costs related to 2.8 FTE's for customer servicemen should be removed from revenue requirement, after the Retail Transfer occurred, on the premise that ATCO had not demonstrated why the work plan of the 277 customer service employees could not be rationalized to recognize the removal of collection activities.

ATCO demonstrated at page 12 of the Application why this cannot be done, indicating that the Company would continue to rely on these staff to perform collection activities related to non-gas billings. ATCO also noted that it continued to be responsible for certain activities related to the collection of accounts, as per the Terms and Conditions for Distribution Access Service (T&C)

approved on an interim basis in Decision 2003-102. As indicated in Schedule B of the T&C, if a customer produces a receipt showing that it has paid the most current bill, or the amount specified as required by the retailer, ATCO would not proceed with the disconnection. ATCO noted that this activity required interaction with the customer, and additional time associated with the disconnection of service. To assume therefore that there would be any reduction in activity for customer servicemen is inaccurate. ATCO indicated that it continued to require all of its customer service employees in the provision of distribution service.

Views of the Interveners

AUMA/PICA

AUMA/PICA noted that in Decision 2003-108, the Board reduced ATCO's distribution rates related to 2.8 FTEs for customer servicemen performing collection functions, and that in this Application ATCO had not complied with the Board's determination in Decision 2003-108. AUMA/PICA noted that ATCO' argument with respect to this issue remained the same as that presented at the unbundling hearing. AUMA/PICA noted ATCO's reasons for not deleting the 2.8 FTEs.

As discussed under General Matters above, AUMA/PICA did not consider it appropriate to reargue the issue or seek a quasi review and variance of this issue in this proceeding. However, AUMA/PICA provided the following comments in the event that the Board decided to re-address this issue.

AUMA/PICA noted that ATCO had not demonstrated why the work plan of the 277 customer service employees could not be rationalized to recognize the reduced work content as a result of the removal of collection activities. AUMA/PICA submitted that the costs related to 2.8 FTEs for customer servicemen performing collection functions should be removed from revenue requirement for the post Retail Transfer period in 2004.

Calgary

Calgary concluded that the adjustments should, at a minimum be those approved in Decision 2003-108.

Views of the Board

The Board, as noted earlier, is prepared to review the directions given in the Unbundling Decision. In this case the Board accepts ATCO's argument that the field staff will continue to have responsibilities for collection duties and that it would be unreasonable to extrapolate a small daily time savings by each field employee into a reduction of 2.8 FTE's. Given that staff are spread throughout ATCO's territory the Board agrees it would be difficult to rationalize the staff at this time.

5.4 Administration Costs

Views of the Applicant

ATCO noted that Decision 2003-108 reduced interim distribution rates by $4.4 million ($2.2 million for each of AGS and ATCO Gas North) representing a reclassification of a portion of administration costs to the DSP function. ATCO considered it unreasonable to reduce revenue requirement with respect to this adjustment which translates to a staff reduction of 40-80 employees. ATCO indicated that no interested parties provided any evidence during the Unbundling proceeding to support the conclusion that the forecast level of administrative costs associated with provision of distribution service was unreasonable. ATCO stated that the Board's decision appeared to have been premised on the argument of Calgary, which arbitrarily assumed that administration costs would be about 20% of direct costs. ATCO expressed concern that the arguments of interested parties in support of the reduction were made without any supporting evidence to demonstrate that these costs were imprudent or to show how the costs could be shed by ATCO.

ATCO indicated that the majority of administrative costs are incurred through charges by ITBS for provision of customer care related to retail services. ATCO pointed out that it was not appropriate to ignore the fact that the charges from ITBS, which have been reduced by $9.8 million in the Application, included indirect and administrative costs. ATCO also pointed out that a reduction proposed with respect to costs related to three GCRR-related positions and costs of the gas management service agreement with Midstream, also included costs related to administrative activities associated with retail service.

ATCO provided details of the changes to the Administrative function that had been made related to the Retail Transfer, and stated that, unless it could be demonstrated that these costs are imprudently incurred, recovery of these costs in rates and inclusion in revenue requirement must be permitted.

AUMA/PICA's recommended 10% reduction to administration costs for the period June to December 2004 appeared to be premised on the view that the Retail Transfer resulted in a *"significant piece"* of former responsibilities being assumed by Direct Energy. ATCO noted that AUMA/PICA did not provide any hard evidence to support the mere assertion that a *significant piece* of ATCO's administrative responsibilities were being assumed by Direct Energy. ATCO reiterated its view that more evidence was required to disallow any portion of a utility's prudently incurred costs. ATCO identified the major components of its administrative costs in the response to PICA-AG-9, and provided evidence as to why those costs were not impacted by the Retail Transfer. ATCO stated that AUMA/PICA had not provided any evidence to prove that the costs were imprudent, thereby falling short of what is required by legislation.

In addition to the reductions mentioned above, ATCO indicated that it had also reduced head office and aircraft charges to reflect the removal of energy revenues from the allocation formula, further reducing administrative costs. ATCO noted that the loss of the retail function had resulted in a reduction in the outsourced costs of the Company including the indirect, administrative and overhead costs that were incorporated in those charges. ATCO stated that the fact that these costs could not be "seen" in the Company's administrative function did not alter the fact that a reduction in these types of costs had occurred.

With respect to internal indirect and administrative costs, ATCO identified further reductions. Specifically, ATCO pointed to a reduction of three positions related to functions associated with the GCRR, which included administrative activities. ATCO had also reduced bank charges, associated I-TEK charges and fringe benefits for staff reductions, and had identified a reduction in consultant fees that would occur in the future.

ATCO submitted therefore that the effect of the Retail Transfer on indirect and administrative costs had been taken into account. ATCO considered it inappropriate to ignore the fact that many of the functions related to the retail function were performed by parties other than ATCO, whose fees would include indirect and administrative costs. ATCO pointed out that the balance of ATCO's administrative costs related to provision of distribution service, and that a further reduction to administrative costs would not allow the Company to perform its responsibilities as a distribution service provider, and would therefore be inappropriate.

Views of the Interveners

AUMA/PICA

AUMA/PICA noted that ATCO's argument with respect to this issue remained the same as presented at the unbundling hearing. As discussed under General Matters above, AUMA/PICA did not consider it appropriate to reargue the issue or seek a quasi review and variance of this issue in this proceeding. However, AUMA/PICA provided the following comments in the event the Board decided to re-address the issue.

AUMA/PICA noted ATCO's view, provided in response to PICA-AG.09 that most administrative expenses are fixed in nature and therefore will not be affected by the Retail Transfer. In AUMA/PICA's view, administrative staffing levels and associated costs are related to ATCO's responsibilities as a regulated utility with distribution and retail functions. The transfer of the retail function resulted in a significant piece of the former responsibilities being assumed by Direct Energy. Given this, in AUMA/PICA's submission, the 10% of administrative costs attributed to the default supply function by the Board in Decision 2003-108 was reasonable and a corresponding amount from the June to December 2004 period should be removed from ATCO's administrative costs to reflect the appropriate level of costs following the transfer of the retail function.

Calgary

Calgary concluded that the adjustments should, at a minimum, be those approved in Decision 2003-108.

Views of the Board

As with the Customer Communication expenses the Unbundling Decision had used a percentage of the COSS to arrive at an amount to be used to transfer administration costs from the PSP to the DSP. As a consequence, the value determined was an annual amount and therefore the Board does not agree with Calgary or the AUMA/PICA that the same value should be used to finalize the revenue requirement.

The Board had agreed it was reasonable to expect a reduction in administration costs when ATCO would not be responsible for activities associated with the retail or DSP function. Interveners in the Unbundling Process had argued that the amount that should be reclassified to the DSP function was in the range of 10 to 20%. The Board agreed that reclassification was appropriate and had accepted that 10% was a reasonable amount. Given the significant reductions in customer care function and gas supply it seems appropriate that some administration costs could be shed. The Board accepts the 10% amount as still being reasonable. However, the Board believes it would be appropriate to apply the reduction to Administrative

Expense, account #721, only, since the original calculation in the Unbundling Decision included several other accounts, such as working capital and numerous indirect charges. Therefore, the Board directs ATCO to determine the reduction by taking the 2004 amount in account #721, as approved in Decision 2004-047, and taking 7/12 of 10% of that amount to arrive at the amount by which to reduce the 2004 revenue requirement.

The following table summarizes the position of the parties and the Board's approval.

Table 5. 2004 Revenue Requirement Impact-Administration Costs

			($000)	
Item	ATCO Gas Total	AUMA/PI CA	Calgary	Board Approved
Administrative	-213	-2567	-4400	-(acct 721*0.1*7/12)

5.5 Forecast of Charges for Customer Care Services provided by ITBS

Views of the Applicant

ATCO noted that the approved revenue requirement included a placeholder forecast for customer care services provided by ITBS, and that the appropriateness of unit rates for these services was the subject of a benchmarking study being undertaken in a separate process. In the Application, ATCO reviewed the volume forecasts for services provided by ITBS for the test years, and calculated the forecast costs that should be included in the revenue requirement related to these volumes. ATCO developed the forecast volumes in 3 separate components and determined the related costs based on the unit rates contained in existing contracts with ITBS. The separate components for development of the forecasts are:

(i) Pre-Retail (January 1, 2003-May 31, 2004)

ATCO indicated that the Company has operated under an Interim Fee Schedule with ITBS from January 1, 2003-June 30, 2004.[12] ATCO indicated that a new Master Services Agreement (MSA) was entered into effective June 1, 2004 related to Distribution services only, resulting in the termination of the Interim Fee Schedule on May 31, 2004. ATCO provided details of the significant changes in the service charge methodology which appeared in the Interim Fee Schedule from that which was included in the original MSA that came into effect in July 1999. ATCO stated that the changes would assist in the benchmarking of unit rates, and indicated that the changes consisted mainly of revisions to account categorization, and dealing with charges for certain services on a pass-through basis rather than on the basis of unit rates. While recognizing that the original GRA forecast was the one that should be tested for reasonableness, ATCO indicated that events, such as the Retail Transfer and unit rate benchmarking, had intervened. ATCO considered that remaining with the original forecast based on the original MSA pricing structure, would make it difficult to incorporate the results of the benchmarking process into the forecast. ATCO also noted that the new MSA pricing structure facilitated revisions to the revenue requirement related to the Retail Transfer. ATCO used the original forecast volumes where there was no inconsistency as a result of the MSA changes, and 2003 actual data where inconsistencies existed. The calculation of revised volumes and the related forecast were filed on Table 3 (pages 1-4) of the Application.

[12] Application, p. 15 of 27 and Attachment 1

(ii) Continuing Retail (June 1, 2004 – September 30, 2004)

ATCO noted that it would continue to require retail related services from ITBS for a period of time, based on a Statement of Work filed provided to ATCO by ITBS, and filed as Attachment 5 to the Application. The calculation of revised volumes and related forecast were filed on Table 3 (pages 5-6) of the Application.

(iii) Distribution Forecast (June 1, 2004 – December 31, 2004)

ATCO pointed out that these volumes addressed only distribution services that ATCO would be responsible for, commencing June 1, 2004. The calculation of revised volumes and related forecast were filed on Table 3 (pages 7-8) of the Application.

The calculations of the revised volumes resulted in an increase in costs for 2003 of $400,000, and a decrease in costs for 2004 of $9.8 million.

Addressing the issues raised by interveners, ATCO referred to Calgary's position that no ITBS adjustments (with the exception of certain capital related adjustments) be approved in this proceeding. With respect to Calgary's recommendation that the ITBS volumes should be part of the collaborative benchmarking process for ITBS services, ATCO pointed out that in a letter dated May 17, 2004 to the Board, the Company indicated that the 2003 and 2004 ITBS volume forecasts would be included with the issues to be addressed in this Application. ATCO noted that no interested parties expressed any concerns with respect to this, and that the Board had established a process in its letter of May 26, 2004. ATCO argued that Calgary's suggestion to defer consideration of the ITBS volume forecast to the collaborative benchmarking process occurred too late in the proceeding and that the Board should ignore Calgary's recommendations.

ATCO noted that Calgary appeared to imply that the Company deferred its response to certain questions related to the ITBS volume forecast to the collaborative process. A review of the information responses moved to the collaborative process (Cal Q&A#1) clearly confirmed that this was not the case. ATCO further noted that Calgary did not ask any clarifying questions with respect to the ITBS volume forecast in its second round of information requests, which implied that the Company addressed those forecasts through the Application and the first round of information requests.

With respect to the active service account volume forecast, ATCO noted that AUMA/PICA appeared to have performed a calculation that divided the volume forecast by 12 to represent a monthly volume, and then compared this amount to the customer forecast. ATCO submitted that this calculation ignored the fact that for billing purposes, service accounts are determined by the volume of billing activity on the accounts throughout the month, as indicated in response to Cal-AG-15. ATCO pointed out that this means that more than one billing per site can occur in a month and that AUMA/PICA's calculations are therefore incorrect, and in fact not relevant.

With respect to the forecast of Other Billing and Call Centre Services, ATCO indicated that the removal of unusual and/or non-recurring items from the historical amounts to determine the forecast, as contemplated by AUMA/PICA, was inappropriate. ATCO indicated that these costs related to services not covered by the MSA (Application Attachment 4, page 2). ATCO pointed out that, as such, one would expect that the services provided would relate to unusual and/or non-recurring items, as otherwise these services would be addressed in the MSA. ATCO also noted that, while AUMA/PICA was relying on 2003 and 2004 actual information in its calculations, the principle of fairness dictated that if 2003 actual information is to be used to assess the reasonableness of those components of the ITBS forecast that are consistent with the original GRA forecast, all such components must be reviewed. ATCO noted that, as can be seen in response to PICA-AG-8, the 2003 actual credit centre hours were significantly higher than the 2003 forecast that ATCO was using. It would be inappropriate therefore to require ATCO to reduce one component of its forecast based on a review of 2003/2004 actual data, but not allow ATCO to increase other components of the forecast for the same reason.

ATCO noted that Calgary recommended a reduction in CIS Enhancement costs, based on 2003 and 2004 actual information provided by the Company. As noted above, ATCO addressed the inappropriateness of relying on only certain actual information, while ignoring other actual information.

ATCO referred to AUMA/PICA's submission that there might be a duplication of charges between ATCO and DERS in the month of May, given that DERS is making use of a deferral account for its costs. While ATCO did not believe that this could occur, ATCO indicated that it is entitled to recover its prudently incurred retail related customer care costs.

Regarding the continuing retail forecast, ATCO noted that AUMA/PICA performed some calculations that appeared to show that the 184,893 call volume forecast for the months of June – September indicated that virtually every customer would require assistance twice. ATCO was unable to replicate the calculations that would lead AUMA/PICA to this conclusion, and for clarity, indicated that the 184,893 call volume forecast related to all of the calls ATCO forecast to receive in the period June – September 2004. ATCO only incorporated a portion of the costs related to these calls in the continuing retail forecast, capturing the remainder in the ITBS distribution forecast. ATCO noted that the June – September 2004 call volume forecast translated to a monthly average of 46,223 calls, considerably lower than the 99,000 calls per month in 2003.

Noting that AUMA/PICA also took issue with the forecast for incoming and outgoing credit calls. ATCO considered AUMA/PICA's calculation with respect to these calls to be inappropriate. ATCO pointed out that collection activities required repeated efforts to be successful, and noted that the total 2004 forecast credit centre hours represented 45% of the 2003 actual number of credit centre hours (44,209 hours in 2004 as per Table 3 / 98,091 hours in 2003 as per PICA -AG-8). ATCO pointed out that AUMA/PICA had not provided any support as to why a further reduction in this forecast of 50% would be appropriate.

In the Application ATCO submitted a Revised Placeholder Forecast, dated July 30, 2004, that adjusted the I-Tek and ITBS O&M amounts as shown in the following Table 6:

Table 6. AG Revised I-Tek and ITBS O&M Placeholder Forecast[13]

	($000)			
	ATCO I-Tek Computer Services		ITBS Billing and Customer Services	
	AGN	AGS	AGN	AGS
2003	4,832*	5,193*	17,693	17,693
2004	4,928	5,233	14,239	14,239

*unchanged from previous forecast

ATCO's revised forecast for 2003 includes an increase of $200,000 for both AGN and AGS, while the estimates for 2004 include decreases from previous estimates.

ATCO indicated that it does not pay a license fee for ITBS' use of ATCO-CIS in the provision of services to AG under the MSA. ATCO pays a service fee for the services rendered by ITBS, using ITBS resources, employees and contractors. In other words, ATCO does not pay a fee to ITBS that is attributable to the ownership of ATCO-CIS. If enhancements to ATCO-CIS are required for the services, those enhancements are developed by ITBS pursuant to an agreed Statement of Work, which will stipulate the fees payable to ITBS for that work. ATCO believes that this is clear in the MSA with ITBS, and as such, the direction requested by Calgary to the Collaborative process on this matter is not required.

Views of the Interveners

AUMA/PICA

AUMA/PICA indicated that, following several information requests, ATCO provided the historical billing units and unit rates for the period 1999 through 2002[14] including the number of non-complex and complex accounts along with call centre and credit centre hours. AUMA/PICA compared the billing units shown in Table 3 of the Application to the 2003/2004 Customer Growth Forecast .[15] AUMA/PICA noted that the variance in the forecast number of active service accounts in 2003 (billing units/12) and the first five months of 2004 compared to the GRA forecast number of year-end customers was as follows:

Table 7. Active Accounts versus Year-End Customers

	Active Accounts	Year-End Customers	Variance
2003	897,889	876,698	21,191
2004	917,786 (5 months)	896,398	21,388

AUMA/PICA considered that, based on the foregoing, it appeared that the volume of active service accounts in Table 3 was overstated by in excess of 21,000 accounts in 2003 and the first five months of 2004. AUMA/PICA submitted that the forecast of active service accounts should be reduced to correspond to the GRA forecast of number of customers. Based on mid-year customers, AUMA/PICA calculated that the number of active accounts should be 866,848 (2003)

[13] Refer to Revised Placeholder Forecasts, page 1 and page 2 of 2, dated July 30, 2004
[14] AUMA-AG-21(a) Attachment
[15] Table 5.3a, 2003/2004 GRA

and 886,548 (2004), and that the number of 2004 active accounts would be overstated to the extent that mid-year exceeds the average for the first five months of 2004.

AUMA/PICA stated that, as noted in Attachment 4 of the Application, the original GRA forecast $520,000 (2003) and $541,000 (2004) for "Other Billing Services" by ITBS is included in the placeholder amounts. ATCO provided details of historical Other Billing Charges in the Attachment to AUMA-AG-16(d), showing an average $540,000 per year for the four years and seven months. In AUMA/PICA's view, ostensibly at least the first three years of actual experience were the basis for the 2003 and 2004 forecasts. However, AUMA/PICA noted that there were several unusual and non-recurring items included in Other Billing Services, such as prior period adjustments, Retail Transfer costs and the Viking refund. Excluding those unusual items reduced the historical average of Other Billing Services to $309,000 per year. AUMA/PICA submitted that this would be a more appropriate forecast for Other Billing Services in 2003 and the portion of 2004 up to the Retail Transfer.

AUMA/PICA noted that in response to AUMA-AG-16(c), ATCO indicated that although it began transferring customer accounts to DERS on May 4, 2004, it was still responsible for the provision of all customer care services in the month of May. AUMA/PICA pointed out that this might result in a duplication of charges for the same services if DERS included customer care services for May in its Deferral Account as approved in Decision 2003-106 (page 86). AUMA/PICA submitted that if ATCO is allowed to bill for customer care services during May 2004, then DERS should not be allowed to do so, or alternatively, if DERS is allowed to bill for customer care services, then ATCO should not be allowed to do so.

AUMA/PICA noted that ATCO and ITBS also created a Statement of Work to address services to be provided during the period June 1 through September 30, 2004. These services relate to customer care services with respect to final and previous bills issued by ATCO up to May 31, 2004. AUMA/PICA indicated that, as shown in Table 3 of the Application, these continuing retail charges total $2.201 million for the period June 1 through September 30, 2004, and that the collaborative benchmarking process will also determine the fair market value of these services. AUMA/PICA expressed several concerns regarding the ITBS volumes and charges during this period.

AUMA/PICA noted that the charges for continuing retail services, summarized at page 13 of Attachment 5, included continuing retail call center services comprising $528,000 and financial services charges of $1,102,000. AUMA/PICA noted that the number of customer assistance calls related to prior ATCO billings was estimated at 184,883, based on the judgment and experience of ATCO Staff.[16] AUMA/PICA indicated that, based on approximately 917,000 total customers in early 2004, this meant that fully 20% of all customers would require call centre assistance related to continuing retail services (i.e. bills issued prior to May 31). Given that the average number of calls to the call centre was about 99,000 per month in 2003,[17] AUMA/PICA considered it difficult to comprehend that ATCO would receive 184,833 calls related to outstanding bills issued prior to May 31. AUMA/PICA maintained that this level of calls would mean that virtually every customer would require assistance twice as compared to an average of approximately 1.3 calls per year. Under these circumstances, AUMA/PICA submitted that no

[16] AUMA-AG-17(d)
[17] AUMA-AG-17(c)

more than ½ of the 184,883 calls estimated by ATCO to be attributable to ongoing retail assistance should be allowed.

Likewise, AUMA/PICA noted that ATCO estimated some 80,000 incoming and outgoing credit calls related to credit and collection, which represents some 9% of all ATCO's customers. AUMA/PICA recommended that the number of calls should be reduced by half.

AUMA/PICA also noted that ATCO and ITBS had entered into a new Master Services Agreement commencing June 1, 2004 related to distribution services only.[18] AUMA/PICA understood that the collaborative benchmarking process would also determine the fair market value of these services. AUMA/PICA expressed the following concerns regarding the ITBS volumes and charges pursuant to the new agreement for the balance of 2004.

ATCO reduced the Call Centre customer assistance hours by 65% to reflect that it would only be responsible for the distribution services.[19] As shown in Table 3, ATCO forecast 35,867 call centre hours for the period June 1 through December 31, 2004 or $1.403 million related to distribution service. AUMA/PICA noted that this was raised in the Gas Rate Unbundling Proceeding and that ATCO provided the basis for the 65% in response to BR-AG-9 in that proceeding. ATCO was able to identify the cause for 22% of the calls to the Call Centre (field orders, meter readings and emergencies). The remaining 78% of the calls was based on a "discussion" with a supervisor at the Call Centre,[20] with 65% relating to billing and 13% to non-billing. AUMA/PICA pointed out that there was no evidence in writing, only the anecdotal evidence referring to the 13%. Given that ATCO had identified all non-billing related activities, AUMA/PICA submitted that the remaining 65% of Call Center calls be deemed to relate to billing, which would reduce the distribution related calls from $1.403 million to $0.882 million.

Calgary

Calgary noted that ATCO provided three forecast periods for ITBS fees and services, substantially changed the ITBS pricing schedules and introduced a new Statement of Work and introduction of a new ITBS MSA.

Calgary noted that ATCO deferred an examination of these substantial changes to a collaborative process. Calgary also noted that these changes in pricing schedules and the new MSA when combined with the Retail Transfer resulted in the following changes in ITBS forecast costs:

- reduction of $317,000 in 2003 forecast ITBS charges
- 2004 forecast charges for Continuing Retail are $2,446,000 without the 11.1% reduction and $2,201,000 with the 11.1% reduction
- reduction of $9,825,000 in 2004 forecast charges for Distribution.

Calgary pointed out that these reductions did not offset the increase in costs that customers would incur as a result of the DERS ITBS contract of approximately $18.3 million.[21]

[18] Page 15 Application and Attachment 8
[19] Page 2, Attachment 7
[20] Page 12, AUMA/EDM Argument, Gas Rate Unbundling
[21] CAL-AG-26 Attachment Calgary Schedule 1.3

Calgary indicated that the above changes were reflected in the Revised Placeholder Forecasts[22] in the Application including the 11.1 % reduction as summarized below:

Table 8. Extracts from Revised Placeholder Forecasts

		($000)		
ATCO Singlepoint (ITBS)	Reference	2003 Forecast	2004 Forecast	Module Addressed In
Billing and Customer Services	Board Direction 47	North: $17,693 South: $17,693	North: $14,239 South: $14,239	ITBS Benchmarking
Total Capital	Board Direction 51	North: $ 463 South: $ 463	North: $ 463 South: $ 463	I-Tek IT Benchmarking

Calgary noted that ATCO provided the actual capital items associated with CIS application development and enhancement[23] including their costs for 2003 and 2004 as follows:

Table 9. Capital Costs-CIS

			($000)		
ATCO Gas CIS Enhancement Projects	Estimated (Full Year)	Actual Costs	Actual Costs (Assuming 7.1% Reduction)[24]	AGN share of actual	AGS Share of Actual
2003	926,000	580,406	539,196	270,000	270,000
2004 (October YTD)	926,000	99,057	92,024	46,000	46,000

Calgary pointed out that, while the 2004 actual data was for October YTD, it was unlikely that further enhancements would be implemented during November and December. Based on the above, Calgary recommended that the ATCO Singlepoint (ITBS) placeholders for capital be adjusted for 2003 from $463,000 to $270,000 for each of North/South (from $926,000 to $539,196) and for 2004 from $463,000 to $46,000 (from $926,000 to $92,000) for each of North/South. Calgary considered that, based on the response to CAL-AG-2.2 there seemed to be duplication of the enhancement projects that rendered their status questionable as capital items. For example Bill One Gov Rebate appeared in 2002, 2003 and 2004 while others such as the AGS rebate and GST Clean up Scan appeared in two different years.

Calgary noted that ATCO substantially changed the ITBS pricing schedules, introduced a new MSA, and confirmed the difficulty in determining the ITBS volumes in the Application, and that all Interveners submitted IRs to clarify and reconcile the new forecast volumes. Calgary indicated that the response to CAL-AG-22 (d-f) on call centre, credit centre, front counter, supervision, and training hour volumes was partially deferred to the collaborative benchmarking process.

Since ATCO has deferred some of the ITBS IRs to the collaborative benchmarking process and since the IR responses did not fully clarify the significant volumes changes, Calgary recommended that volumes be part of the collaborative benchmarking process on ITBS services.

[22] Application – 2003/2004 GRA Placeholders, Revised Placeholder Forecasts, p.1 and 2, July 30, 2004
[23] CAL-AG-2.2(i) Attachment, pp.5-6
[24] Assumed to relate to 7.5% discount to I-Tek prices directed by the Board in Decision 2002-069

Calgary suggested that the benchmarker would be requested to determine if the structure of the pricing schedule was common in the industry and therefore if the volumes made sense.

Calgary referred to ATCO's comment in the Application that "It is expected that the benchmarking of the ITBS unit prices will be addressed through a collaborative process, and will not therefore be addressed in this Application." Calgary referred to the following response to a number of Calgary's IRs[25] about the new ITBS MSA provided in the ATCO covering letter of October 4, 2004:

> The answers to these questions posed by the City of Calgary have, however, been provided as part of the Collaborative Process and have been attached for convenience only.

Calgary identified certain of the terms and conditions of the new ITBS MSA that needed to be changed, many of which were the same as discussed[26] in Decision 2003-073 (I-Tek MSA Module). Calgary was hopeful that ATCO would request that ITBS change these terms and conditions as part of the collaborative process.

Calgary concluded that:

- No ITBS adjustments should be approved in this proceeding.
- The ATCO Singlepoint (ITBS) placeholders for capital be adjusted for 2003 to $270,000 for each of North/South and for 2004 to $46,000 for each of North/South.
- Volumes should be part of the collaborative benchmarking process on ITBS services.

Views of the Board

The Use of Actual vs. ATCO Gas Forecasted ITBS Volumes

The panel of the Board assigned to the Application (the AG Panel) has considered the evidence and argument of the parties before it on the record in this Proceeding and has made certain determinations based on that evidence and argument. The AG Panel notes that several of its findings in this Proceeding parallel findings made by a different division of the Board (the AE Panel) on the same or similar matters detailed in Decision 2005-037.

With respect to ATCO's request for Board approval of the ITBS volumes as submitted in the Application, the AG Panel finds the approach adopted in Decision 2005-037 consistent with the AG Panel's analysis and conclusions based on the record of this Proceeding. In particular, the AG Panel's analysis of the evidence in this Proceeding supports the submission of a compliance filing by AG that would contain the actual ITBS volumes for services delivered during the 2003 and 2004 test periods. In these circumstances, the preparation of a joint filing by AG and AE appears appropriate to facilitate the benchmarking of ITBS services. Decision 2005-037 directed ATCO Electric to make a compliance filing in conjunction with AG (the Joint Benchmarking Filing) containing the actual volumes for ITBS services delivered for the 2003 and 2004 test periods. The AG Panel agrees with the reasoning and directions set out in Decision 2005-037 commencing at page 11 and notes the AE Panel refer to several documents jointly filed with AG

[25] CAL-AG-17, CAL-AG-17, CAL-AG-20 (e), CAL-AG-22 (d-f), CAL-AG-23
[26] Decision 2003-073, Section 4.14, pp.41-42

or to volume forecast updates and ITBS price schedule changes that were concurrently filed by AG in this Proceeding:

> The Board considers that ATCO appears to be the author of its own impediments in respect to the final determination of volumes regarding its ITBS contracting. While the interim ITBS rates were put in place January 1, 2003 (the Interim ITBS Rates), the Board notes that ATCO only provided the final "forecast" volumes that it wished to have approved on July 1, 2004.
>
> In the Board's view, ATCO should have been clear as to the revenues that would result from the interim ITBS rates (presumably based on those interim rates X forecast volumes) prior to implementation of the interim rates on January 1, 2003. If not, the Board questions how ATCO determined the level of those interim rates as the Board has previously directed that charges to be paid to an affiliate for services rendered are to be at market levels. The Board notes AE indicated that the interim ITBS rates have resulted in a changed basis for its volume forecasts from those it employed in determining the volumes for the original 2003/2004 GTA forecasts.
>
> The Board considers that AE could have provided the new adjusted volume forecasts on the same basis for the interim ITBS rates implemented January 1, 2003 when it provided its March 28, 2003 letter in conjunction with its 2003/2004 GRA/GTA.. Instead, the Board notes that ATCO indicated in its March 28, 2003 letter that "All pricing and volume related issues for Billing and Customer Care Services are being dealt with in the I-Tek Business Services Benchmarking module."
>
> The Board notes that ATCO waited until July of 2004 to provide the 2003 volume "forecast" arising from implementation of the interim ITBS Fee Schedule implemented on January 1, 2003. …
>
> The Board notes that AE provided no reconciliation to the GTA forecasts and instead indicated that the volumes reflected the new fee schedule implemented January 1, 2003 and were not reconcilable with past volumes/forecasts. In essence, the volume forecasts in the Application could not be tested based on past actual volumes.
>
> The Board notes that, while AE acknowledged the importance of volumes to the benchmarking study and as the basis for charges from an affiliate, AE nevertheless changed the definitions of those volumes in its ITBS Fee Schedule. While AE indicated that the changes were made for transparency and ease in benchmarking, the Board can see no evidence that that is the case. Instead, AE indicated essentially that the new volumes cannot be related to prior volume measures such as the number of complex and non-complex customers.
>
> As a result, the Board considers that use of the Application's volume forecasts would leave the Benchmarking results to rely on the Application's essentially untested volume forecasts.
>
> The Board considers that AE should have had indicated to the Board the forecasts, including a breakdown by rate class,[27] that AE relied on when the Interim Fee Schedule's Unit Rates were developed. Then, those forecasts could have then been tested and relied upon to develop the appropriate benchmarking prices on a prospective basis. Instead, the

[27] The need for such a breakdown is discussed elsewhere in this Decision.

Board considers AE has provided a mixture of actual and forecast results which may or may not disadvantage customers relative to ATCO in the Benchmarking.

The Board agrees with AE that having the volumes approved prior to the ITBS Benchmarking would facilitate the ITBS benchmarking process. However, given the changes that have transpired, the Board does not agree with AE's method of calculating the volume forecasts.

The Board notes the agreement by ATCO and interveners of the importance of the volume forecasts to the results of the Benchmarking and 2003/2004 placeholder adjustments and the fact that AE had 2003 actuals on which to base its 2003 forecasts.

In that regard, the Board noted that the use of forecasts when actuals are available would appear to unnecessarily complicate the matters to be resolved before benchmarking occurs for the Pre-Retail Sale period.

Consequently, the Board is having some difficulty with the concept of using any forecast volumes for 2003 to determine the level for ITBS costs. The Board considers that it would be much fairer to parties to use the actual 2003 ITBS volumes and costs for 2003 rather than a mixture of actuals and forecasts.

In summary, the Board concludes that actual 2003 volumes are the most appropriate values to use for both the benchmarking and ultimate calculation of the total charges payable when the Fee Schedules are confirmed or changed by the benchmarker(s) because of the following circumstances:

- the forecast was not provided in advance of conducting the affiliate transactions,
- the 2003 forecast was not provided until July of 2004, and
- the basis for determining the forecast was changed without an update to the forecast in advance of the change.

In regard to 2004, AE developed a forecast of 2004 ITBS volumes and costs based on a mixture of actual and forecast 2003 results using customer growth rates. AE indicated that this approach meant that service levels have no bearing on the 2004 billing units forecast in the Application

The Board also has some difficulty with AE's indication that service levels have no bearing on the 2004 billing units forecast in the Application, since it appears to the Board that Call Center, Credit Center and Supervision Hours would all be at least partly a function of the number of customers and the level of service provided those customers….

The Board considers that the actual 2004 ITBS volumes would reflect the changes in service levels arising from Directive 3 for AE and also the actual effects of the retail sale transition period and the final Distribution only status for AE. Accordingly the Board considers that the actual ITBS volumes should also be used both in benchmarking the unit prices and in adjusting the 2003/2004 GTA placeholders.

In regard to the 2004 Post Retail Sale period, the Board notes that in the past that it has often used deferral accounts to adjust for actual experience after the fact when a specific expense is difficult to forecast and significant to protect the utility and customers alike (such as in the case of Direct Energy volumes).

> However, in this case, the Board notes that a deferral account treatment is unnecessary for 2004 since the actual ITBS volumes up to December 31, 2004 should also be available in the Joint Benchmarking Filing as directed in this Decision. In addition, the Board notes with respect to call volumes and other services that the last quarter of 2004 would likely be the most reflective of the operation of the distribution arms of AE without the retail element since there was a transition period in the second and third quarters of 2004 after the sale occurred.
>
> In these circumstances, the Board considers that customers and AE would be treated most fairly by using the actual ITBS volumes from the fourth quarter with forecast volume growth rates agreeable to the Benchmarking committee to benchmark the ITBS fee schedule for future distribution only service. The Board considers these matters should be considered, with the foregoing comments of the Board in mind, by the Benchmarking Committee. If the Benchmarking Committee cannot agree on appropriate parameters, then the benchmarker should determine the parameters.

Accordingly, the AG Panel does not accept the 2003 and 2004 ITBS volumes filed by ATCO in the Application, nor does it find appropriate the suggestion by Calgary to defer consideration of the ITBS volume forecasts to the collaborative benchmarking process and directs ATCO to utilize actual volumes for the 2003 and 2004 test years in respect of each of the Pre-Retail (January 1, 2003-May 31, 2004), Continuing Retail (June 1, 2004 – September 30, 2004) and Distribution Forecast (June 1, 2004-December 31, 2004) periods in the manner and in the detail directed by the AE Panel in Decision 2005-037.

Should Gas and Electric ITBS Volumes be Combined?

The AG Panel notes the discussion in Decision 2005-037 relating to the combination of gas and electric ITBS volumes for benchmarking purposes. Starting at page 17, the AE Panel states:

> The Board considers it likely that, if the less complex accounts of AE and AG were combined, then the effect on unit rates would be significant since such a combination would change volume numbers by roughly 500% and 20% respectively (assuming one bill/customer/month). …
>
> The Board sees no specific evidence to support AE's position that volumes for gas and electric customers with simpler bills should not be combined. The Board is aware that such customers have fixed and variable charges regardless of whether they are gas or electric customers.
>
> Accordingly, the Board considers that all the non-demand metered sites residential, small commercial and unmetered gas and electric volumes without demand meters should be combined and charged a common fee schedule rate.
>
> Similarly, the Board also sees no specific evidence to support AE's position that volumes for customers with demand meters should not be combined. The Board is aware that such customers have fixed, variable and demand related charges regardless of whether they are gas or electric customers.
>
> Accordingly the Board considers that all the non-complex demand metered sites gas and electric volumes should be combined and charged a common fee schedule rate.

> The Board accepts that complex/hand-billed customer volumes should not be combined with other volumes.
>
> Further, the Board considers that the Benchmarking Committee/benchmarker should combine the gas and electric volumes to determine the appropriate unit prices relating to each of the following: Call Centre Hours, Credit Centre Hours, the Non-Metered Service Account volumes, the Finaled Service Account volumes and the Additional Service Account Processing volumes.
>
> The Board also considers that the Benchmarking Committee/benchmarker should determine the appropriate charges/discount for calls redirected to/from Direct Energy. Such a discount appears necessary since such calls would otherwise appear to be billed for twice by I-Tek.
>
> If AE and AG are able to provide evidence that convinces the Benchmarking Committee that some other combination of volumes and/or unit rates should be used then the Benchmarking Committee should advise the benchmarker appropriately.

The AG Panel finds the approach utilized in Decision 2005-037 to be appropriate in the circumstances of this Proceeding. The AG Panel also finds this approach to be consistent with the spirit and intent of the ATCO Group Inter-Affiliate Code of Conduct, one of the objectives of which is:

> (b) providing an environment in which inter-affiliate economies and efficiencies can legitimately occur for the mutual advantage of both a Utility's customers and its shareholders.[28]

In addition, the AG Panel notes that the ATCO Group of companies have agreed with ATCO I Tek on achieving cost efficiencies for I-Tek services across the ATCO Group of companies and of ensuring that each company may obtain the same services on the same terms and conditions and at the same unit cost. The I-Tek MSA dated September 27, 2002 and made effective January 1, 2002 (the Renewal MSA) between ATCO I-Tek and each of the ATCO utilities was filed in the proceedings resulting in Decision 2003-073.[29] Section 1,1(a)(iii) of the Renewal MSA[30] establishes the Principles and Goals of the Agreement which include:

> (C) Provide leadership in identifying, reaching agreement on, and adopting, an appropriate set of standards which will support the optimum level of integration of IT solutions within and across the ATCO Group.
>
> (D) Seek to implement the most cost effective IT solutions which will be responsive to the needs and priorities of each member of the ATCO Group.
>
> (G) Work towards minimizing costs to the ATCO Group, and implement a fair and reasonable pricing approach that provides maximum benefit to the ATCO Group.

[28] ATCO Inter-Affiliate Code of Conduct, Section 1.1 Purpose and Objectives of the Code, being Appendix 5 to Decision 2003-040, dated May 22, 2003

[29] Decision 2003-073 ATCO Electric, ATCO Gas and ATCO Pipelines (the ATCO Utilities) ATCO I-Tek Information Technology Master Services Agreement (MSA Module), dated September 26, 2003

[30] The Renewal MSA, as amended, can be found in Appendix 1 to Decision 2004-055 ATCO Electric, ATCO Gas and ATCO Pipelines (the ATCO Utilities) Second Compliance Filing Pursuant to Decisions 2003-073 and 2004-026 – ATCO I-Tek Master Services Agreement Module, dated July 13, 2004.

> During the term of this Agreement, each member of the ATCO Group has the right to obtain, at a minimum, the same IT services on the same terms and conditions as ATCO Ltd., at no more than the unit costs in effect at the time.

The AG Panel believes the above reflects the overall intention of the ATCO Group of companies to work jointly with ATCO I-Tek in achieving maximum efficiencies through economies of scale, common standards of service and appropriate degrees of integration. Accordingly, the AG Panel supports the combination of gas and electric ITBS volumes for benchmarking purposes while allowing the Benchmarking Committee sufficient flexibility to make appropriate modifications.

I-Tek Computer Services and ITBS Placeholders

Until such time as the benchmarking is completed the AG Panel does not agree with Calgary that the capital placeholders should be altered. In this instance the AG Panel prefers to leave the placeholders shown in the "Estimated" column in Table 9 as they are, pending completion of the benchmarking process.

The AG Panel notes that ATCO has proposed revised estimates to the placeholders related to O&M for ATCO I-Tek Computer Services and for ITBS Billing and Customer Services as shown in Table 6:

The Board notes that the revised forecast for 2003 includes an increase of $200,000 for both AGN and AGS, while the estimates for 2004 include decreases from previous estimates. The final figures will be determined in the benchmarking process, however the Board will approve the 2004 revised placeholders but not those for 2003. The Board considers the 2004 decreases are acceptable given the expectation that costs should decrease as a result of the Retail Transfer while the 2003 increases will be subject to the review of ITBS MSA. The following Table 10 sets out the placeholders approved in this Decision.

Table 10. Board Approved I-Tek and ITBS O&M Placeholders

($000)				
	ATCO I-Tek Computer Services		ITBS Billing and Customer Services	
	AGN	AGS	AGN	AGS
2003	4,832	5,193	17,493	17,493
2004	4,928	5,233	14,239	14,239

I-Tek Volume Forecasts

The AG Panel notes and agrees with the approach taken in Decision 2005-037 with respect to the use of actual I-Tek volumes recorded during the 2003 and 2004 test years for benchmarking purposes. Starting at page 24 of that Decision it was determined:

> The Board has concerns with AE/AG's approach to volumes for both IT and ITBS. As in the case of the Interim ITBS Fee Schedule implementation, ATCO has also not updated the 2003 and 2004 GTA/GRA IT forecasts during the GRA/GTA to reflect the Renewal MSA volumes or the total revamp of IT pricing Schedule D of the Original 1999 IT MSA

even though the IT Renewal MSA was signed September 27, 2002 and effective January 1, 2002.

The Board notes that the volume forecasts for the IT Renewal MSA have only been supplied in a letter dated April 30, 2004 and have not been tested. Similarly the 2003 and 2004 GTA IT volumes were not approved for AG or AE in the GRA/GTA decisions.

Further, the Board recognizes that relative to the forecasts in the GTA/GRA and the IT Renewal MSA, IT service requirements would have been directly impacted by ITBS service volumes changes, the sale of the retail business and by the possible IT economies of scale realized by ATCO Group since ATCO I-Tek is now processing about twice the bills (i.e. one set for AE/AG and one set for Direct for the same customers).

For all of the above reasons, the Board considers that the actual volumes should also be used in the IT benchmarking exercise rather than the essentially untested forecast volumes that were likely based on 2001 and 2002 actuals or 1999 forecasts. Accordingly, as the 2003 and 2004 IT volumes are now known through I-Tech IT billings, Board considers that the forecast IT volumes should also be adjusted to actual volumes for 2003 and 2004 for Benchmarking purposes.

The Board notes that supplying actuals as the "specified volumes" will allow the benchmarker to comply with the above Clause 3.1.1 in proposed Terms of Reference in Appendix 2 of Decision 2004-057 in respect to verifying volumes.

The Board expects ATCO, in the Joint Benchmarking Filing, to file for each month of 2003 and 2004 all actual IT volumes individually for AG and AE, and in aggregate for other ATCO affiliates given its impact on overall IT pricing.

The Board refers to the three time periods required to be benchmarked as described later in the Decision and adopts the same periods for purposes of the Joint Benchmarking Filing for IT volumes and billings. The Board expects AE and AG, in the Joint Benchmarking Filing, to use an appropriate adjustment to the October 1, 2004 to December 31, 2004 period to annualize the volumes for use in benchmarking the Post-Retail MSA.

The Board considers that the October 1, 2004 to December 31, 2004 period is more appropriate for the Post-Retail benchmarking since it ensures that sufficient time has passed to facilitate the complete transition to distribution service only.

The Board also notes that Section 8.3 (c) of the Renewal MSA in Appendix 1 of Decision 2004-055 sets out that:

> The unit prices set out in Schedule D are based on a forecast provided by the Client (the "Initial Forecast") of estimated usage of the Services by Client for the Initial Term (as hereinafter defined). The Initial Forecast is attached to Schedule D. During the last Annual Review of the Initial Term and each Renewal Term (as hereinafter defined), Client shall advise ATCO I-Tek of Client's expected usage of the Services in the forthcoming five (5) year period (the "Updated Forecast"). If the Updated Forecast is not within ten percent (10%) of the Initial Forecast or previous Updated Forecast, as the case may be, ATCO I-Tek may adjust the unit price to Client to compensate for changes in projected usage. During any annual period, increases or decreases resulting from Client's actual usage will be reflected in ATCO I-Tek's monthly billing, subject to the bandwidth described in

> Schedule D for each category. No increases made under the provisions of this subsection (c) shall be subject to the restrictions on increases set forth in subsection (a).[31]
>
> The Board also considers that ATCO should file Schedule D in the Joint Benchmarking Filing and explain the level of the Initial Forecasts in Schedule D and the bandwidths and their relationships to each of the IT volumes filed in ATCO's letter dated April 30, 2004.

Based on the record in this Proceeding, the AG Panel finds the reasoning and the directions quoted above from Decision 2005-037 to be equally applicable to AG I-Tek volumes and concludes that the use of actual volumes is appropriate for use in the benchmarking process in order to determine the appropriate pricing for the test years. AG is directed, in conjunction with AE to file actual I-Tek volumes and related information in the Joint Benchmarking Filing, in the manner described in the above extract from Decision 2005-037. The Benchmarking will benchmark two periods. These two periods are the Pre-Retail Sale Period (January 1, 2003 to May 31, 2004) and the Post-Retail Sale Period (June 1, 2004 to December 31, 2004). In addition, the benchmarker will be expected to benchmark the additional services that were provided under the Statement of Work for the period of June 1, 2004 until September 30, 2004.

The Joint Benchmarking Filing

Decision 2005-037 provided a certain amount of detail with respect to the Joint Benchmarking Filing in order to assist the benchmarking exercise. Commencing at page 26 the AE Panel stated:

> As a result, the Board directs AE in conjunction with AG, in the Joint Benchmarking Filing, to file the following ITBS information for each rate class monthly for 2003 and 2004:
>
> - the actual number of billing units;
> - the number of service accounts finalized; and
> - the number of bills issued if different than the sum of the above.
>
> Further, the Board directs AE in conjunction with AG, in the Joint Benchmarking Filing, to file in aggregate (and for each rate class if available) for each month for each of the periods of a) all of January 1, 2003 to May 31, 2004, b) June 1 to September 30, 2004 and c) October 1, 2004 to December 31, 2005:
>
> - the additional service account processing;
> - number of calls;
> - average time per call;
> - number of calls referred to Direct Energy;
> - number of calls referred from Direct Energy;
> - the volumes by fee schedule unit rate;
> - any other charges from ITBS with volumes the respective volumes; and
> - the total of all charges from ITBS broken down by volume and unit price.
>
> The Board considers that there should be two benchmarking periods. These two periods are the Pre-Retail Sale Period (January 1, 2003 to May 31, 2004) and the Post-Retail Sale Period (June 1, 2004 to December 31, 2004). In addition, the benchmarker will be

[31] Decision 2004-055 Section 8.3 (c) of the Renewal MSA in Appendix 1

> expected to benchmark the additional services that were provided under the Statement of Work for the period of June 1, 2004 until September 30, 2004.
>
> The ITBS volumes in the Joint Benchmarking Filing may be used by the Benchmarking Committee/benchmarker to determine appropriate unit rate levels for each rate class for each period and for purposes of determining the appropriate unit rate levels in respect of the services delivered under the Statement of Work during the June 1, 2004 to September 30, 2004 period.
>
> Further, the Board expects the benchmarker to use the Joint Benchmarking Filing, to benchmark the period January 1, 2003 to May 31, 2004 as one integrated period for benchmarking for the Pre-Retail Sale period.
>
> Further, the Board directs AE, in the Joint Benchmarking Filing, to use an appropriate adjustment to the October 1, 2004 to December 31, 2004 period to annualize the volumes for use in benchmarking the Post-Retail MSA to account for any seasonal or other adjustments due to the use of quarterly data in arriving at an annualized amount. The Board considers that the October 1, 2004 to December 31, 2004 period is more appropriate since it ensures that sufficient time has passed to facilitated the complete transition to distribution service only.
>
> In addition as indicated in the section of this Decision on Continuing Retail Services, the Board considers that use of actuals ensures that in difficult to forecast one time transition periods such as the June 1 to September 30, 2004 period ensures that all parties are treated fairly with forecast volume errors removed. Accordingly, the Board expects that the Benchmarking Committee/benchmarker will determine if the unit rates on the Statement of Work for that period are at appropriate levels given the actual volumes incurred.
>
> The Board directs AE in conjunction with AG, in the Joint Benchmarking Filing, to file all actual I-Tek monthly bills with charges paid for 2003 or 2004 under the IT and ITBS fee schedules and statements of work to assist parties in understanding the charge methodology.
>
> The Board considers that there is considerable room for discussion between AE and AG and the Benchmarking Committee. If AE and AG are able to provide evidence that convinces the Benchmarking Committee that some other unit fee/benchmarking period/approach/volumes should be used, then the Benchmarking Committee should advise the benchmarker accordingly.
>
> The Board directs AE in conjunction with AG, to provide the Joint Benchmarking Filing by June 1, 2005.
>
> The Board expects that the Benchmarking Committee together with AG and AE should complete the IT and ITBS MSA RFPs for the benchmarker by August 2005 and file them with the Board by August 15, 2005.

The AG Panel finds the approach adopted in Decision 2005-037 to be of assistance in ensuring that the benchmarking process will have sufficiently detailed information to provide the required fair market value pricing required in order to replace the ATCO Gas revenue requirement placeholders for 2003 and 2004 and should serve as a template for determining fair market value for ITBS services in future periods.[32] In addition, it provides for sufficient flexibility to allow the Benchmarking Committee to refine the benchmarking exercise to better accommodate the needs of the parties. The AG Panel endorses this approach and directs ATCO Gas to participate in the Joint Benchmarking Filing in accordance with the above provisions and timelines.

In summary, the AG Panel concurs with the process established by Decision 2005-037 at page 31 and directs ATCO Gas to work in conjunction with ATCO Electric in this regard:

> The Board considers that after the actual 2003 and 2004 volumes are used to benchmark the ITBS and IT Fee Schedules, the actual 2003 and 2004 ITBS and IT volumes should be applied to the benchmarked unit prices to determine the required adjustments to the 2003 and 2004 GTA/GRA placeholders and the amounts to be refunded/collected from the customers of each of the utilities reflecting the impact of the retail sale. To determine 2003 IT and ITBS costs, the Benchmarked Pre-retail Sale unit rates should be applied to the actual 2003 volumes. To determine 2004 IT and ITBS costs, the Benchmarked Pre-retail Sale Unit rates should be applied to the actual volumes from January 1, 2004 to May 31, 2005, the Benchmarked Statement of Work and Distribution Only unit rates should be applied to the actual volumes from June 1, 2004 to September 30, 2004 and the Benchmarked Distribution Only unit rates should be applied to the actual volumes from October 1, 2004 to December 31, 2004.

5.6 Proposed Recovery of Shortfall Amounts

Views of the Applicant

As indicated in Section 2 of this Decision, reduction of interim distribution rates approved in Decision 2003-108 combined with other adjustments to revenue as proposed in the Application resulted in a decrease in revenue, for 2004 only, of $8.714 million (North) and $8.423 million (South). ATCO noted that the net result of its proposed adjustments was an increase in the revenue shortfall of $2.039 million (North) and $2.122 million (South). In the Application, ATCO requested approval of the revised 2003/2004 revenue requirement and recovery of these shortfall amounts from customers.

Views of the Board

Prior to addressing the extent of any shortfall in respect of the 2003/2004 test years a compliance filing will be required.

5.7 Deferral of Bad Debts and Late Payment Revenues

Views of the Applicant

ATCO indicated that, after June 1, 2004 it would no longer charge 70% of bad debt expense to the GCRR, but would continue to incur bad debt expense and collection agency fees related to billings prior to that date. ATCO proposed to write down a portion of the $2.2M Allowance for Doubtful Accounts to help offset some of this expense. ATCO indicated that it would also continue to recover Late Payment revenue from customers. Given the lack of precedent to develop a forecast to deal with this situation, ATCO proposed to establish a deferral account to

[32] In this respect the AG Panel notes and concurs in the direction at page 29 of Decision 2005-037 which states: "Accordingly, the Board considers that the benchmarker should provide a schedule that sets out the FMV changes in each unit rate in the Fee Schedule Rate that will arise when the customer numbers change by 1%, 2%, 4% and 6%."

collect all expense and revenue incurred after June 1, together with a write-down to the Allowance. On this basis, ATCO removed bad debt expense and late payment revenue from the forecast effective June 1, 2004, and proposed to incorporate the deferral account and related evaluation in the next GRA.

ATCO noted that AUMA/PICA took issue with the request for a deferral account related to bad debt expense, collection agency fees and penalty revenues, based on the premise that establishment of this deferral account could provide a disincentive to ATCO in its diligence regarding collection activities. ATCO noted that Calgary had not indicated any concerns with respect to the proposed deferral account.

ATCO objected to the inference that it would act less than diligently in recovering all amounts owed by customers, and questioned how a disincentive could exist, particularly since the Company had no certainty that the deferral account would be approved. ATCO indicated that all available methods had been to collect outstanding accounts. ATCO stated that it was also patently incorrect to contend that all 2004 pre-Retail Transfer billings would be covered by the January – May bad debt expense. ATCO pointed out that there was a time difference of up to 150 days between the initial billing, and the time that the billing would be written off as uncollectible. Clearly ATCO will continue to incur bad debt expense after May 2004, related to its billings prior to the Retail Transfer, and is entitled to recover these costs from customers.

ATCO also indicated that there was a timing difference between receipt of late payment revenues and the write off of those accounts. ATCO noted that it generally received higher late payment charges in the winter months, while account write-offs tended to increase in the latter half of the year.

ATCO noted that a significant portion of bad debt expense (approximately 70%) related to Gas Cost Recoveries (GCRR), and that prior to the Retail Transfer, a deferral mechanism existed with respect to both the bad debt expense and the late payment charges associated with the GCRR. ATCO therefore already deferred approximately 70% of these charges, and indicated that all of these factors clearly pointed out why the use of a deferral account was appropriate and fair. ATCO considered that AUMA/PICA was seeking to maximize the benefit for customers by taking all of the late payment charges related to the January to May billings, but not accepting the bad debt expense for which customers were appropriately responsible.

In the event that the Board viewed that a deferral mechanism for bad debt expense, late payment charges and collection agency charges was not appropriate, ATCO requested that it be allowed to amend the revenue requirement to incorporate forecasts for these amounts for the period June – December 2004. ATCO indicated that all costs and revenues associated with these items from the revenue requirement forecast effective June 1, 2004 had been removed, on the premise that deferral account treatment was being sought.

Views of the Interveners

AUMA/PICA

AUMA/PICA noted that the proposed reductions to bad debt expense effective June 1, 2004 are based on 60% of the full year forecast amounts of $1,516,000 (North), and $1,481,000 (South), a percentage determined through a review of prior year actual data.

AUMA/PICA was not opposed to the proposed method of reducing bad debt expense to reflect the O&M level for the post Retail Transfer period. However, AUMA/PICA expressed concern that the establishment of a deferral account for bad debts could provide a perverse incentive to ATCO with respect to collection of bad debts, since customers rather than ATCO would be responsible for uncollected amounts billed by ATCO prior to the Retail Transfer.

AUMA/PICA considered that the 40% of bad debt expense that ATCO did not propose to be removed from O&M represented the appropriate forecast expense for bad debt during the period January to May 2004 and submitted that any actual bad debt incurred for activities during that period should be considered as a variance from forecast. Accordingly, AUMA/PICA submitted that ATCO's request for establishment of a bad debt deferral account should be denied.

AUMA/PICA was not opposed to ATCO's proposed allocation of late payment fees between the pre retail and post Retail Transfer periods:

AUMA/PICA noted ATCO's proposal to treat late payment penalties as part of the bad debt deferral account. AUMA/PICA recommended that, in view of its position that bad debts not be treated as part of a deferral account, as a parallel measure, the Company continue to bear the risk of any difference between forecast and actual late payment fees for the pre retail transfer period. AUMA/PICA submitted that ATCO's proposal to defer penalty revenues should be denied.

Views of the Board

The Board agrees with ATCO that the use of a deferral account will assist it in the transition period following the Retail Transfer. The Board appreciates that it may be difficult to forecast the resulting levels of bad debt and that ATCO will need to gain some experience. Accordingly, the Board grants ATCO's request for a deferral account in respect of bad debts, however the need for a deferral account shall be revisited at the next opportunity occurring after the next GRA.

5.8 Adjustments to Long Term Financing and Common Dividends

Views of the Applicant

Because of changes to the balance sheet, including removal of the budget plan and consumer deposits, ATCO reduced debenture issues by $15 million (North) and $9 million (South) and increased common dividends by $7.5 million (North) and $2.5 million (South).

Noting AUMA/PICA's position that the Company should be required to use the lower embedded debt rate that was included in the revenue requirement approved in Decision 2004-047 even though financing needs had decreased. ATCO pointed out that customers either received the benefit associated with the lower level of financing, at the proper weighted average cost, or that the original level of financing, at the original weighted average cost, should be used. ATCO considered that use of a combination of these factors to obtain the optimal result for customers was not fair to the Company, and had no logic.

Views of the Interveners

AUMA/PICA

AUMA/PICA noted that as a result of reducing the forecast 2004 new debt, the embedded cost of debt increased from 7.934% to 7.958% (North) and from 7.820% to 7.831% (South), and acknowledged that this was because 2004 new debt had a lower cost rate compared with the embedded cost of existing debt. AUMA/PICA questioned why customers should be asked to bear the higher embedded cost of debt in 2004 resulting purely from the Retail Transfer to Direct Energy. AUMA/PICA submitted that a fair alternative from the customer point of view would have ATCO attribute the same embedded debt rate to the distribution function before and after the transfer.

Views of the Board

The Board notes that the adjustment for both AGS and AGN are a result of adjusting the amount of the most recent addition to debt, that being for 2004. The Board accepts this approach as reasonable and accepts ATCO's adjustments as submitted.

5.9 Risk Adjustment

Views of the Applicant

Noting AUMA/PICA's position that the Company's return should be unbundled and treated as related to distribution service, and that the Board should give consideration to adjusting the risk compensation of the Company for 2004, following the Retail Transfer, ATCO viewed that the return was unbundled, and related entirely to PSP service. ATCO referred to Decision 2003-072, where the Board found as follows:

> The Board considers that purchasing energy from the marketplace for transfer to customers on a flow through basis eliminates the need to direct attention to matters such as contract management, contract credit risk and regulatory uncertainty with respect to energy costs.

ATCO submitted that the Board had clearly made its views known with respect to the minimal risk associated with the use of deferral accounts such as the DGA and the RRO in numerous regulatory decisions, Decision 2003-072 being the most recent for ATCO. Furthermore, ATCO noted that this matter was addressed in the Generic Cost of Capital proceeding,[33] where the Board's Decision resulted in a higher common equity ratio for ATCO than the ratio approved for 2004. ATCO submitted therefore that no adjustment to the 2004 cost of capital component of ATCO's revenue requirement was warranted.

Views of the Interveners

AUMA/PICA referred to the submission by PICA/STMG reflected in Decision 2003-108 with respect to the issue of risk adjustment. PICA/STMG had submitted that a process should be

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[33] 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., dated July 2, 2004

established for "assessment and final determination of the risk compensation impact of the separation of ATCO Gas's retail [operations]."[34]

AUMA/PICA submitted that since the transfer of retail operations took place in May 2004, the Board should give consideration to adjusting the risk compensation of ATCO for 2004 following the transfer of retail operations.

Views of the Board

The Board agrees with ATCO that the relevant matters have been adequately canvassed in the Generic Cost of Capital proceeding and do not require revisiting.

5.10 Deferred Hearing Account

Views of the Applicant

ATCO requested approval to include the EUB assessment commencing January 1, 2003 in the deferred hearing account. ATCO indicated that this had no impact on the 2003/2004 GRA.

ATCO noted that no parties took issue with the request to include the EUB Assessment in the deferred hearing account, commencing January 1, 2003.

Views of the Board

ATCO has requested permission to include the EUB Assessment in the Deferred Hearing Account as of January 1, 2003. The Board notes there was no objection and accordingly approves ATCO's proposal.

6 Compliance Filing

In addition to the Joint Benchmarking Filing to be made in conjunction with AE discussed in Section 5.5, the Board directs ATCO to submit a compliance filing (Compliance Filing), by June 1, 2005, to address the revenue requirement adjustments made in this Decision and in Decisions 2004-049[35] and 2004-076.[36] The Compliance Filing adjustments shall include adjustments to the placeholders for ATCO I-Tek and ITBS as may be required to comply with the findings in this Decision (refer to Table 10 of this Decision and to ATCO's Revised Placeholder Forecasts, page 1 and page 2 of 2, dated July 30, 2004). A summary of the Boards approvals are set out in the following Table 11.

ATCO is directed as part of its Compliance Filing to include a proposed methodology for collection of the shortfall in revenue resulting from this Decision. Any subsequent adjustments which result from finalization of placeholder amounts will be processed though deferral accounts.

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[34] Decision 2003-108, p. 48

[35] ATCO Electric, ATCO Gas, and ATCO Pipelines (The ATCO Utilities) Review of ATCO Executive Compensation Allocated to the ATCO Utilities, dated June 24, 2004

[36] ATCO Electric, ATCO Gas, and ATCO Pipelines (The ATCO Utilities) Compliance Filings Arising from Board Decision 2004-049 (Review of ATCO Executive Compensation Allocated to the ATCO Utilities), dated September 7, 2004

ATCO is also directed to update the Board by June 1, 2005, with respect to a 2003/2004 GRA Phase II proceeding.

Table 11. Board Approved Impact of Retail Sale

($000)				
Item	AGN	AGS	ATCO Gas Total	Board Approved
Gas Management	-335	-336	-671	-671
Customer Communication	-51	-49	-100	-350
General	19	45	64	64
Administration Costs	-89	-124	-213	TBD[37]
Customer Care-ITBS	-4189	-4283	-8472	-8472
Bad Debt	-910	-889	-1799	-1799
FTEs	0	0	0	0.
Total O&M	-5555	-5636	-11191	TBD
Utility Income	-790	-554	-1344	TBC*
Depreciation	-51	-51	-102	TBC
Income Tax	-476	-259	-735	TBC
Totals	-6872	-6500	-13372	TBD

TBC- to be confirmed by the Compliance Filing

[37] To be determined - 2004 amount in account #721, as approved in Decision 2004-047, and taking 7/12 of 10% of that amount to arrive at the amount by which to reduce the 2004 revenue requirement

7 ORDER

IT IS HEREBY ORDERED THAT:

(1) ATCO Gas comply with all directions provided in this Decision.

Dated in Calgary, Alberta on May 3, 2005.

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 A – SUMMARY OF BOARD DIRECTIONS

This section is provided for the convenience of readers. In the event of any difference between the Directions in this section and those in the main body of the Decision, the wording in the main body of the Decision shall prevail.

APPENDIX B – ATCO GAS NORTH: BASE RATE REVENUE REQUIREMENT

ATCO GAS NORTH
RETAIL TRANSFER IMPACT
BASE RATE REVENUE REQUIREMENT
($000's)

Line No.		2003 EUB 2004-047	2003 ADJUSTED	2004 EUB 2004-047	2004 ADJUSTED
1	Rate Base	442 214	442 221	465 779	457 468
2	Return on Rate Base	8.363%	8.363%	8.373%	8.353%
3	Utility Income	36 984	36 984	39 001	38 211
	Cash Operating Expenses				
4	Other Taxes	255	255	259	259
5	Other Operating Expenses	112 531	112 731	118 757	113 202
6	Total Cash Operating Expenses	112 786	112 986	119 016	113 461
7	Depreciation	31 951	31 951	32 666	32 615
8	Provision for Income Taxes	16 424	16 421	14 514	14 038
9	Base Rate Revenue Requirement	198 145	198 342	205 197	198 325
10	Less Revenue on Existing Rates	171 543	171 543	177 063	168 349
11	Approved Interim Rate Increase	14 980	14 980	15 198	15 198
12	Recovered through rider approved in Decision 2004-047		11 622		12 936
13	Revenue Shortfall (Surplus)	11 622	197	12 936	1 842

APPENDIX C – ATCO GAS SOUTH: BASE RATE REVENUE REQUIREMENT

ATCO GAS SOUTH
RETAIL TRANSFER IMPACT
BASE RATE REVENUE REQUIREMENT
($000's)

Line No.		2003 EUB 2004-047	2003 ADJUSTED	2004 EUB 2004-047	2004 ADJUSTED
1	Rate Base	510 638	510 647	534 573	526 473
2	Return on Rate Base	8.138%	8.138%	8.263%	8.285%
3	Utility Income	41 558	41 558	44 174	43 620
	Cash Operating Expenses				
4	Other Taxes	324	324	329	329
5	Other Operating Expenses	106 478	106 678	111 848	106 212
6	Total Cash Operating Expenses	106 802	107 002	112 177	106 541
7	Depreciation	31 197	31 197	31 967	31 916
8	Provision for Income Taxes	14 981	14 980	14 106	13 847
9	Base Rate Revenue Requirement	194 538	194 737	202 424	195 924
10	Less Revenue on Existing Rates	177 594	177 594	183 957	175 534
11	Approved Interim Rate Increase	10 009	10 009	10 159	10 159
12	Recovered through rider approved in Decision 2004-047		6 935		8 308
13	Revenue Shortfall (Surplus)	6 935	199	8 308	1 923