



## ATCO Gas

Retailer Service and Gas Utilities Act Compliance  
Phase 2 Part A

July 26, 2005

**ALBERTA ENERGY AND UTILITIES BOARD**

Decision 2005-081: ATCO Gas

Retailer Service and Gas Utilities Act Compliance

Phase 2 Part A

Application No. 1380942

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RETAILER SERVICE AND  
GAS UTILITIES ACT COMPLIANCE  
PHASE 2 PART A**

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**1 INTRODUCTION**

The Alberta Energy and Utilities Board (Board) received an application (Application) from ATCO Gas on January 18, 2005 respecting Phase 2 of the ATCO Gas July 25, 2003 Retailer Service and Gas Utilities Act (GUA) Compliance Application (the Retailer Service Application) which was with respect to the development of processes for ATCO Gas to load balance<sup>1</sup> its distribution system.

Incorporating input from interested parties, the Board determined it would be appropriate to handle the Application in two parts. This Decision deals with Part A of Phase 2 addressing issues of whether or not:

- the function of load balancing should be separated from the regulated supply;
- the Default Supply Provider (DSP) and retailers should be administered under account balancing procedures to be established in Part B;
- the cost of load balancing should be shared by all end use customers regardless of whether the end user customer obtains its gas from the DSP or a Retailer.

**2 BACKGROUND**

The Retailer Service Application requested various approvals related to new Terms and Conditions (T&Cs) between ATCO Gas and its retailers and direct connect customers, and with respect to developing a load balancing and settlement system for gas. [Decision 2003-102](#)<sup>2</sup> confirmed the Board's direction to divide the Retailer Service Application into two phases. Decision 2003-102 dealt with Phase 1 matters including interim T&Cs proposals, as well as the continuation of the Rate 11/13 processes with respect to load balancing. Phase 2 was established to deal with final approval of the T&Cs, load balancing and load settlement issues.

Decision 2003-102 also directed ATCO Gas to co-ordinate a joint approach with ATCO Pipelines with respect to a separate application, providing a complete justification for the UFG [unaccounted-for-gas] Meters and SCADA [supervisory control and data acquisition] projects

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<sup>1</sup> In Decision 2001-75 (at page 108), the Board provided a definition for the load balancing function:  
*“Load balancing is part of the physical operation of the gas system, whereby gas supplies are adjusted to maintain the correct operating pressure in the gas system.”*

<sup>2</sup> ATCO Gas North and South Retailer Service and Gas Utilities Act Compliance – Phase 1, issued December 22, 2003

disallowed in [Decision 2003-100](#)<sup>3</sup>, which ATCO considered would form an integral part of the load balancing mechanisms associated with Phase 2 of the Retailer Service Application. ATCO Pipelines provided a SCADA application and the SCADA project was approved by the Board in [Decision 2004-078](#).

Further, Decision 2003-102 indicated the Board's expectation that ATCO Gas would co-ordinate and schedule technical discussions related to Phase 2 issues, and directed ATCO to submit a report to the Board on the progress achieved in the technical discussions related to the Phase 2 issues and to propose a process to be followed thereafter.

In the Application, ATCO Gas included an outline of its plan to conduct three technical meetings and a description of the purpose of the Phase 2.

The Board received a letter of March 4, 2005 from ATCO Gas summarizing progress and discussing its proposed process for advancing Phase 2 of the Retailer Service Application. In that letter, ATCO Gas noted that consensus regarding the Phase 2 matters could not be achieved in the technical meetings with respect to the overarching principles related to account balancing and load balancing, as well as with the details underpinning the account balancing and load balancing processes proposed. ATCO Gas considered that the overarching principles must be established before meaningful discussions could be held on the details necessary to implement the principles. Therefore, ATCO Gas proposed to divide the Phase 2 process into two sub-parts.

The Board obtained input from interested parties and established in a letter of March 29, 2005 that it would be appropriate to consider the Phase 2 process as follows:

Phase 2 - Part A	<p>Establish conceptual account balancing and load balancing<sup>4</sup> principles for Retailer Service specifically dealing with issues of whether or not:</p> <ul style="list-style-type: none"> <li>• the function of load balancing should be separated from the regulated supply;</li> <li>• the DSP and retailers should be administered under account balancing procedures to be established in Part B;</li> <li>• the cost of load balancing should be shared by all end use customers regardless of whether the end use customer obtains its gas from the DSP or a Retailer.</li> </ul>
Phase 2 - Part B	<p>Establish details of Retailer Service as required based upon the concepts established in Part A utilizing an approach to be subsequently finalized by the Board.</p> <p>Final approval of Terms and Conditions for Distribution Access Service and Distribution Service Connections.</p>

Additionally in that letter, the Board established a schedule for Part A of the Phase 2 process culminating in Argument and Reply on June 17 and 24, 2005 respectively. For purposes of this Decision, the Board considers that the record closed on June 24, 2005.

<sup>3</sup> ATCO subsequently established in its application related to Decision 2004-078, ATCO Gas and ATCO Pipelines SCADA Project issued September 17, 2004, that the UFG Meters were approved in the South in Decision 2001-97 and in the North in Decision 2003-100.

<sup>4</sup> Account balancing is the process associated with administering account tolerances and reconciliation by individual customer accounts whereas load balancing is the process of acquisition or disposition of gas supplies by the utility to maintain the pipeline system pressures in balance. The two processes are linked to the extent that larger tolerances for customer account balancing would directionally result in larger daily amounts of gas being purchased/sold by the utility.

On a related matter, the Board issued a letter on July 11, 2005 dealing with a proposal from ATCO Gas respecting development of a tariff billing code for gas. The Board notes that many of the key elements of a “settlement system code” for gas, including customer account balancing, load balancing and load settlement, will be addressed in Phase 2 - Part B of this process.

### **3 ISSUES**

The Board considers that the issues to be addressed in this Decision are those set out in the March 29, 2005 letter, as described above.

### **4 DISCUSSION OF ISSUES**

The Board will address the above-identified issues in the following sections.

#### **4.1 Whether the function of load balancing should be separated from the regulated supply**

In keeping with the definition of load balancing referred to in Decision 2001-75 referenced in footnote 1, the Board considers that load balancing is the physical operation of a pipeline system to ensure operating pressure is maintained within an appropriate range to ensure pipeline safety and security of supply by using processes to monitor system pressures and control the flow of gas entering<sup>5</sup> the system. In response to CAL-AG-1, ATCO Gas indicated that its Application seeks approval for the procedural principles associated with load balancing to account for the acquisition and disposition of gas for load balancing.

ATCO Gas proposes to establish procedures to separate the function of load balancing on its distribution system from the regulated supply provided by the DSP. Concurrently, ATCO Gas proposes to separate the distribution load balancing function from transmission load balancing.<sup>6</sup> Load balancing for the distribution system would be separated from the DSP function in conjunction with establishing a customer account for the DSP, similar to the existing customer accounts for each competitive and self retailer on the ATCO Gas system.

The separation between the ATCO distribution and transmission systems would be achieved utilizing the metering and SCADA equipment expected to be completed in the fall of 2005, in conjunction with the evolving balancing administration procedures for the ATCO Gas account (Firm Service Utility or FSU) on the ATCO Pipelines system. The ATCO Gas account on ATCO Pipelines would accumulate the distribution system imbalances and would be subject to the account balancing and load balancing provisions on ATCO Pipelines<sup>7</sup>. Under the ATCO Pipelines settlement agreements, expected to be implemented approximately October 1, 2005, ATCO Gas would be required to purchase or sell gas volumes on a daily basis to maintain its ATCO Pipelines account in balance within certain tolerances.

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<sup>5</sup> And, in certain conditions, also exiting the system.

<sup>6</sup> Reference CAL-AG-2(a) and Technical Meeting #1 presentation, illustration page 24

<sup>7</sup> Orders U2005-221 and U2005-261 approved customer account balancing and load balancing settlements, respectively, on ATCO Pipelines

ATCO Gas proposed that these deferral account balances be collected from all ATCO Gas customers via a rate rider mechanism. With the proposed arrangements, ATCO Gas considered that the DSP and retailers would be treated equally.

For clarity, the Board further understands that the customer account balancing mechanics to track individual ATCO Gas distribution system accounts, held by the DSP and retailers, would be monitored and balanced independently from the load balancing process, using procedures to be finalized in Part B. While the load balancing and account balancing processes would be administratively independent, they would be related from the perspective that a wider customer account balancing tolerance would expectedly result in a larger load balancing requirement.

These arrangements would differ from the status quo processes<sup>8</sup>, wherein the DSP (Direct Energy Regulated Services or DERS) acts as the residual shipper, currently providing load balancing for both the ATCO distribution and transmission systems utilizing a deferral account to collect all the positive and negative volumetric system imbalances as well as pricing differentials for both systems. ATCO Gas suggested that under this new process neither retailers nor the DSP would have a competitive advantage or disadvantage, and that customers would also be able to move seamlessly between the DSP and a retailer or between retailers. ATCO Gas further summarized its reasons for believing the current method of load balancing is no longer appropriate in the following response to CAL-AG-5:

In summary, ATCO Gas believes the current method of Load Balancing is no longer appropriate because:

- the R3 Regulation [Roles, Relationships and Responsibilities Regulation] specifically assigns responsibility for Load Balancing the gas distribution system to the gas distributor (i.e. ATCO Gas);
- the costs of the gas distribution system Load Balancing function are currently only being borne by one group of distribution customers;
- Direct Energy is not acting as an agent or contractor for ATCO Gas in Direct Energy's capacity as DSP;
- in the Retail Transfer arrangement, Direct Energy did not accept the current method of Load Balancing on anything other than a short-term transition basis;
- the daily gas distribution system Load Balancing requirement cannot currently be identified, quantified or otherwise distinguished from the regulated gas services function;
- the present inequitable sharing of Load Balancing costs will be exacerbated by future reductions of regulated customers as more non-regulated supply customers escape responsibility for legitimate distribution.

Further, in CAL-AG-15(b), ATCO Gas summarized its perspectives of the benefits of removing the load balancing function from the regulated supply as follows:

The benefits of removing the Load Balancing function from regulated sales customers can only be identified qualitatively and include:

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<sup>8</sup> Reference Technical Meeting #1 presentation, illustration page 9



- ensures a fair allocation of Load Balancing costs among all distribution end use consumers who received the benefit of reliable gas distribution service;
- allows the systems/procedures to be put in place to collect and quantify the gas distribution system Load Balancing requirement;
- provides the data history necessary to quantitatively evaluate the effectiveness of Account Balancing rules in the future;
- places the DSP on the same level playing field as competitive Retailers;
- is sustainable in the long run, regardless of the number of customers receiving regulated gas services from the DSP.

The Board notes that Calgary submitted evidence indicating reasons why it considered it unnecessary for ATCO Gas to establish an ATCO Gas deferral account, rather than just continuing to load balance through the DERS Deferred Gas Account (DGA). In its evidence, Calgary explained that it does not consider that the R3 Regulation specifically requires ATCO Gas to have its own DGA for load balancing purposes. Even though Calgary did not consider it to be specifically required by regulation, in its evidence<sup>9</sup> and in its response to BR-CAL-1, Calgary indicated that it does not oppose separating the function of load balancing from the regulated supply subsequent to the commissioning of the SCADA facilities between the ATCO transmission and distribution systems.

DERS strongly supported the Application and offered the following evidence:

Any load balancing done by DERS is reflected in the purchase volumes contained in DERS' regulated sales portfolio and the costs of this load balancing accrues to DERS' regulated customers. It is not possible at this time to accurately quantify the economic impact to DERS' customers of providing this function. However DERS can assure the Board that there can be and are significant volumes purchased or sold by DERS which DERS believes are reflective of the requirement of the regulated sales portfolio to balance other shippers' physical imbalances on the ATCO Gas distribution system.

...Whether the source of the imbalance arises from the transmission or distribution system, or from industrial/producer transportation customers, small industrial, institutional or commercial distribution customers, or competitive retailers serving the residential market, the regulated sales portfolio currently absorbs the volume imbalances and the resulting costs.

To maintain the status quo would be in DERS' view not in keeping with of Section 4(1)(i) the R3 Regulation) which states:

4(1) A gas distributor must do the following:

- (i) perform load balancing for the gas distribution system:

This Application provides an opportunity to correct the structural misalignment between the current practice whereby the regulated sales portfolio acts as the load balancing agent and the requirement under the R3 Regulation noted above.

An additional concern for DERS is that as the competitive natural gas market develops in Alberta, the proportion of load served by the regulated sales portfolio will diminish over

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<sup>9</sup> Calgary evidence, page 6, Q4

time. If the regulated sales portfolio retains system balancing responsibility, the impact of that responsibility on regulated customers from both a cost and volatility perspective will increase as the regulated sales portfolio shrinks over time. This is neither an equitable nor a sustainable long-term proposition.

The Board shares the concerns expressed by DERS with respect to continuing the current mechanism wherein the DSP provides load balancing for the combined distribution and transmission systems, and notes that ATCO Gas has repeatedly expressed similar perspectives to those provided by DERS. The Board would have similar concerns regarding potential cross-subsidization with any mechanism that might load balance the distribution and transmission systems separately, but which merged the load balancing requirements for the regulated supply provided by the DSP with the load balancing requirements associated with competitive retailers. Hence, the Board considers that it is appropriate to move forward with procedures that will facilitate the separation of load balancing from the regulated supply which is provided by the DSP. The Board expects this evolution would occur subsequent to the commissioning of the SCADA equipment on the metering between the ATCO Gas and ATCO Pipelines systems, which is expected in the fall of 2005.

Accordingly, the Board considers that the function of load balancing should be separated from the regulated supply.

#### **4.2 Whether the DSP and retailers should be administered under account balancing procedures to be established in Part B**

The Board notes that Phase 2 of the Retailer Service Application was split into Parts A and B so that parties could have the opportunity to examine and test what might be considered fundamental principles associated with Phase 2, such as whether load balancing should be separated from the default supply. As discussed in Section 4.1, the Board did not see any concerns associated with fundamental principles that would preclude advancing to the Part B process to establish the detailed procedures associated with the Retailer Service Application. The Board considers that detailed procedures will be required to be developed respecting the mechanisms for customer account balancing, load balancing and load settlement.

As referenced by ATCO Gas in its Technical Meeting #1 presentation<sup>10</sup>, the procedures and tolerances established for customer account balancing with respect to the ATCO Gas system are expected to directly influence the amounts of gas required to be purchased or sold by ATCO Gas in order to load balance its distribution system. The Board considers that this relationship makes it desirable for customer account balancing and load balancing procedures to be developed in harmony with each other. Additionally, the documentation of procedures and the associated responsibilities must be completed.

The Board considers the development of customer account balancing, load balancing and load settlement procedures to be closely linked.

Accordingly, the Board considers that the DSP and retailers should be administered under account balancing provisions to be established in Part B.

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<sup>10</sup> Reference Technical Meeting #1 presentation, pages 6 and 14

### **4.3 Whether the cost of load balancing should be shared by all end use customers regardless of whether the end use customer obtains its gas from the DSP or a retailer**

ATCO Gas indicated<sup>11</sup> that the process of load balancing the distribution system would result in costs generated from both load balancing imbalances within the ATCO Gas distribution system, plus a share of ATCO Pipelines' load balancing system costs (together the Load Balancing Costs). These costs (both positive and negative) are proposed to be captured in deferral account mechanisms to be established for ATCO Gas North and ATCO Gas South.

The Board notes that both the Calgary evidence and the DERS evidence supported the concept that the costs accumulated in the ATCO Gas load balancing deferral accounts should be recovered from all distribution customers through rate riders to be applied to both the retailers and the DSP. AUMA/UCA/EDM concurred and PICA indicated it was not opposed to this approach. While the CCA considered that Load Balancing Costs should be borne by those who cause the costs, it provided a perspective that competitive retailers and the DSP ought to be responsible for the costs of load balancing and customer account balancing, rather than individual end users. The CCA considered that the retailers and DSP would have more control over these costs through forecasting and modeling of customer behaviour and should be responsible for the costs, rather than individual customers. However, the Board notes the following concern expressed by ATCO Gas in its reply.

CCA also states that "account balancing tolerances should be set low" because costs "not picked up in customer account balancing will be picked up in load balancing". ATCO Gas interprets this to mean that CCA supports daily Account Balancing rules. However, it appears that CCA considers that "load balancing costs should be shared by the competitive and non-competitive retailers" rather than being applied to end-use customers. ATCO Gas does not agree.

ATCO Gas notes that applying daily Load Balancing charges to Retailer/DSP Account(s) is the functional equivalent of implementing daily Account Balancing rules that require daily Imbalance settlement to zero. ATCO Gas notes that in response to the Board's request for comments, the Retailer Group stated that it "does not necessarily agree to the [daily Account Balancing] details set out in the ATCO Gas application" and proposed that Account Balancing rules will be dealt with in Part B. If the Retailer Group did not agree with daily Account Balancing as initially proposed, ATCO Gas submits it is unlikely that they would agree to a zero Account Balancing tolerance now.

Furthermore, ATCO Gas believes that applying the Load Balancing Rate Rider ("LBRR") to end-user consumptions is reasonable because it reflects the benefit of reliable gas distribution service obtained by end-users. ATCO Gas submits that requiring Retailers/DSP to balance their Accounts to zero each day is not reasonable because Retailers are necessarily affected by any forecast error in their customer's daily consumptions. With respect, ATCO Gas submits that the principle of applying the LBRR to end-user consumptions should be approved.

While the Board considers that implementation of the CCA proposal might have some element of merit toward fostering competition and discipline among retailers, the Board concurs with ATCO Gas that all end use customers would benefit from reliable load balancing service.

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<sup>11</sup> Reference Technical Meeting #1 presentation, page 21

Further, as referenced by ATCO Gas above, the CCA suggested that the relationship between load balancing requirements and customer account balancing is such that establishing a low tolerance for customer account balancing would result in diminished load balancing requirements. The Board agrees that it is essential to establish an appropriate relationship between account balancing and load balancing. To the extent customer account balances are maintained within tolerances, load balancing requirements can be reduced. The Board considers that defining this relationship is most appropriately dealt with in Part B.

Overall, the Board considers that the Load Balancing Costs would be generated in association with the overall operation of the distribution system, and to the extent that equitable and appropriate customer account balancing procedures are developed, these Load Balancing Costs should be collected from or refunded to all customers whether they are served by the DSP or retailers.

Accordingly, the Board considers that the Load Balancing Costs (positive and negative) should be recovered from or refunded to all end use customers regardless of whether they are served from the DSP or a retailer.

#### **4.4 Next Steps**

The Board will be issuing a letter with respect to the next steps for Part B.

## 5 ORDER

IT IS HEREBY ORDERED THAT:

ATCO Gas proceed with Phase 2, Part B of the Application incorporating the following principles approved in this decision:

- the function of load balancing should be separated from the regulated supply,
- the Default Supply Provider (DSP) and retailers should be administered under account balancing procedures to be established in Part B, and
- the cost of load balancing should be shared by all end use customers regardless of whether the end use customer obtains its gas from the DSP or a Retailer.

Dated in Calgary, Alberta on July 26, 2005.

### **ALBERTA ENERGY AND UTILITIES BOARD**

*(original signed by)*

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Presiding Member

*(original signed by)*

J. I. Douglas, FCA  
Member

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