Decision 2005-099

ATCO Gas

2005-2007 General Rate Application
Interim Rate Application

August 29, 2005

Alberta Energy and Utilities Board

ALBERTA ENERGY AND UTILITIES BOARD
Decision 2005-099: ATCO Gas
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Application No. 1404168

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Calgary Alberta

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1 INTRODUCTION

ATCO Gas (AG) filed a General Rate Application (GRA) for the 2005-2007 test period on May 13, 2005. On June 8, 2005, AG filed an application (the Application) with the Board requesting approval for proposed rates on an interim basis. AG proposed that the interim rates would be effective September 1, 2005, and would reflect an increase in revenue from existing 2004 rates in the amount of $9.3 million for ATCO Gas North (AGN). No interim rate increase was requested for ATCO Gas South (AGS).

2 PARTICULARS OF THE APPLICATION

AG provided the following information in support of the Application:

- In the Overview of the GRA, AG indicated that the 2005 revenue shortfall for AGN was $18.5 million. ATCO submitted that this was a substantial shortfall and that the forecast shortfalls for 2006 and 2007 were substantially higher at $26.6 million and $34.5 million respectively. The requested interim increase of $9.3 million represented approximately 50% of the forecast 2005 shortfall and was proposed to be collected between September 1, 2005 – December 31, 2005.

AG also proposed that the interim increase should be applied to all customer rates on an across-the-board basis, and provided detailed calculations of the billing determinants and proposed rates for each rate class for AGN customers.

AG indicated that, to minimize rate shock and maintain intergenerational equity, it would be in the best interests of customers to implement an interim increase in rates for AGN. AG also indicated that an interim increase in the level proposed would be consistent with the last approved increase for AGN and was in the range of historic approvals for Northwestern Utilities (NUL) and Canadian Western Natural Gas Ltd (CWNG). Since past rate applications involved contentious changes to capital structure and return on common equity that would not be an issue in this proceeding, AG asserted that the request for 50% of the estimated shortfall was reasonable. AG provided excerpts from previous Board Decisions in support of its requested increase and its request that the interim increase be applied across-the-board.

By letter dated July 15, 2005, the Board requested that interested parties provide submissions with respect to the Application by July 22, 2005, and that AG provide a response to those submissions by July 29, 2005. However, a submission was received on July 8, 2005 from the Consumer Group (CG) to which AG replied on July 13, 2005. CG filed a response to AG’s reply in a letter dated July 15, 2005.

3 POSITIONS OF AG AND THE INTERVENERS

The CG disagreed with AG that implementation of the applied for interim rate would minimize rate shock. In their July 15 response letter to AG, CG contended that the difference between $9.3 million and $18.5 million only constituted a 1% difference to customer end bills. As such, CG concluded that rate shock and intergenerational equity should not be considered issues in this instance.

CG argued that AGN should not receive an interim rate adjustment. CG claimed that there were significant amounts that AGN included in its Application that had been reduced or denied by the Board in previous proceedings. Additionally, CG stated that there were other amounts that represented unusually large increases over 2004 amounts. In total CG suggested that $19.3 million in reductions should be applied to AGN's forecasted shortfall. Since this amount exceeded AGN's total revenue deficiency, CG asserted that no interim rate adjustment ought to be approved. CG's support for the $19.3 million in reductions is described below.

CG noted that in its application AG forecasted a one-time Federal deferred income tax refund for the North. This amount is required to be refunded to customers in accordance with direction set out in Decision 2003-072.[1] CG argued that as no interest was being paid on this amount, it should be used to offset the 2005 forecasted revenue shortfall rather than applied to offset projected expenditures in 2006 as proposed by AG.

CG also noted the Board's direction in Decision 2003-072 which directed AG:

> … to re-evaluate the MRRP [Meter Relocation and Replacement Project] and incorporate in its Refiling, a revised proposal for replacement of meters with underground entries over a 10-year timeframe, and replacement/relocation of meters with aboveground entries on a schedule coincident with the recall program.[2]

CG noted that the AG GRA application forecast that the MRRP will cost $30 million per year; an amount greater than the cost of $28 million forecast in the last rate application. For this reason, CG requested that for interim purposes, the MRRP should be limited to $25 million per year. This was the amount approved by the Board for MRRP expenditures for 2004 in Decision 2004-036.[3]

CG also argued that AG's forecast expenditures on urban mains replacements was too high at $19.1 million for 2005. CG considered that the Board directed AG in Decision 2003-072:

> … to reduce the 2004 test year forecast for Urban Mains Replacements to $7.092 million.[4]

In its previous forecast, AG budgeted $15.1 million for urban mains replacements in 2004. Therefore, CG submitted that AG's forecast amount for urban mains replacements in 2005 should be reduced to $7 million per year.

[1] Decision 2003-072 – ATCO Gas 2003/2004 General Rate Application, Phase I, dated October 1, 2003
[2] Decision 2003-072, p. 81
[3] Decision 2004-036 – ATCO Gas 2003/2004 General Rate Application – Compliance Filing, dated April 28, 2004
[4] Decision 2003-072, p. 47

For the 2005 test year, AG forecast a $5 million increase in movable equipment as compared to 2003 and 2004 actual expenditures. As was noted by CG, the 2005 moveable equipment expenditure forecast was significantly greater than 2006 and 2007 forecast amounts. CG submitted that, for interim purposes, AG's 2005 moveable equipment forecast be reduced by $5 million.

In total, CG submitted that the net impact on AG's capital expenditure forecasts pertaining to the above noted items is a reduction of $22 million. The net effect on the revenue requirement of these reductions would be $2.1 million, of which CG argued that $1.1 million should be attributed to AGN.

In Decision 2003-072, the Board determined that AG had not established that monthly meter reading was necessary. Therefore, the Board directed AG to revise its forecast to reflect the costs of reading meters on a bi-monthly basis. However, CG noted that AG has continued to provide monthly meter reading and has included forecast monthly meter reading costs in its 2005-2007 GRA. CG stated that in Decision 2003-072, ATCO Gas estimated monthly meter reading expenses at $5.5 million plus capital costs of $577,000. CG argued that none of the costs of monthly meter reading should be included in the interim rates and argued that AGN's interim request should be reduced by $3 million.

Also noted by the CG, AG forecasted the addition of 84 full-time employees (FTEs) in 2005. Including labour and benefits expenses, CG noted that the average estimated cost per new FTE was $62,300 per year. Without further testing, CG contended that this amount was front loaded and only the costs of 42 FTEs should be considered for the purpose of interim rates. CG remarked that this would reduce AG's forecast 2005 expenses by $2.5 million, of which CG argued $1.3 million ought to be attributed to AGN.

CG noted that Account 701 advertising expense was forecast to be $6.0 million in 2005; an increase over the $3.0 million allowed by the Board in Decision 2003-072 for the 2003-2004 test years. CG observed that in its 2003-2004 GRA, AG applied for a similar increase. CG submitted that for interim purposes the Account 701 advertising costs should be limited to $3 million for AG. CG argued that $1.5 million of this amount should be attributed to AGN.

In addition, CG remarked that in Decision 2005-039[5] the Board reduced Customer Communication Costs by $250,000 reflecting the costs associated with the GCRR for which AG was no longer responsible. CG asserted that this amount should also be excluded from interim rates.

Furthermore, CG noted that the Board reduced AG's administration costs to reflect the transfer of the retail function to Direct Energy Regulated Services (DERS). CG indicated that AG stated in its latest compliance filing that it had reduced administrative expenses by $1.029 million in the north and by $1.068 million in the south. These amounts reflected savings in administrative costs in the last 7 months of 2004. CG contended that since AG argued that there should not be any reductions in administrative costs as a result of the transfer, it was unlikely that AG would have

[5] Decision 2005-039 – ATCO Gas 2003/2004 GRA Impact of the Retail Transfer and ITBS Volume Forecast, dated May 3, 2005

removed any of these costs from its 2005-2007 GRA. Therefore, CG asserted that for interim purposes, AGN's administrative costs should be reduced by $1.675 million for 2005.

CG stated that AG included in its forecast expenses an amount of $500,000 for external legal fees in excess of the Board Scale for 2005, half of which would be attributable to AGN. Since hearing costs in excess of the Board Scale are not allowed for any participants (either companies or interveners), CG argued for a $0.3 million reduction to expenses for AGN interim rates.

Similarly, CG submitted that $339,000 for donations included for 2005 should be excluded from both the GRA and the interim rate application. CG argued that historically the Board ruled that donations were not a cost to be borne by customers. As such, CG contended AGN's forecasted expenses be reduced by $0.3 million.

CG noted that AG proposed changes to its depreciation study that would result in a net depreciation expense increase of $1.683 million for the 2005 test year. CG asserted that there was no urgent or compelling reason for AG to recover increased depreciation expense caused by changes to service life and net salvage assumptions. CG contended that for interim purposes AGN depreciation expense should be reduced by $0.9 million.

CG and the Utilities Consumer Advocate (UCA) noted that AG has forecast an increase of $3 million in ATCO I-Tek charges from 2004 to 2005. The unit prices were based on an MSA that was renewed early in 2005 and included a 3.8% inflation increase for labour. CG and the UCA indicated that the areas relating to Distributed Hardware and Application Service Provider (ASP) applications were forecasted to have the largest increases. Since the Board previously directed ATCO Gas to reduce ATCO I-Tek charges by 7.5% in Decision 2002-069,[6] CG and the UCA contended that ATCO I-Tek charges should be reduced by 10% for interim purposes. The result would be a $0.7 million reduction for AGN in 2005.

CG also submitted that I-Tek Business Services (ITBS) charges ought to be reduced by 11.1%. CG noted that these charges were reduced by the Board in Decision 2002-069 by this amount. The $22.5 million that AG forecast in spending on ITBS was based on a new Master Service Agreement (MSA). CG contended that it was unlikely that the 11.1% reduction ordered by the Board was incorporated in this Application. Therefore, for the purposes of interim rates, CG argued that ITBS charges to ATCO Gas should be reduced by $2.5 million with $1.3 million of that amount being attributable to AGN.

CG noted that Industrial Gas Consumers Association of Alberta (IGCAA) submitted evidence in an ATCO Pipelines Application No. 1393613[7] suggesting that costs allocated to unregulated portions of the network, (the Muskeg River Pipeline) have been understated by approximately $1.6 million at the expense of ATCO Pipelines other customers. CG argued that if this evidence was found to be compelling in the ATCO Pipelines proceeding, that it could have a significant impact for AG. CG estimated that charges to AGN could be reduced by as much as $0.6 million for 2005.

[6] Decision 2002-069 – Affiliate Transactions and Code of Conduct Proceeding, Part A: Asset Transfer, Outsourcing Arrangements, and GRA Issues, dated July 26, 2002

[7] Muskeg River Pipeline Module

In addition, ATCO Pipelines was expected to receive $4 million worth of TBO (Transportation By Others) revenues from NOVA Gas Transmission Limited (NGTL). Of this amount, CG contended that $0.4 million would accrue to AGN.

Finally, if NGTL's proposed rate design was accepted by the Board, CG claimed that ATCO Pipelines would save 13% over current rates. CG argued that this amount would translate to savings for AGN of $0.15 million.

CG maintained that the outcome of the ATCO Pipelines and NGTL proceedings could have a significant impact on the AGN's costs. For this reason, CG submitted that AGN's interim revenue should be reduced by $1.15 million.

AG reviewed CG's submission and replied that the focus of an interim rate application should not be to pre-judge contentious issues, but rather to avoid rate shock and provide intergenerational equity. AG stated that an intervener's suggestion of an issue being contentious should not automatically make it so. AG argued that it was for this reason that it only requested 50% of the forecast revenue shortfall as opposed to the full amount. AG noted that it would be unlikely that it would be able to implement adjusted rates based on the outcome of the GRA Decision before March 2003. ATCO Gas asserted that if the full amounts of the shortfall for 2005 and 2006 were approved by the Board, customers would face a significant increase in rates at that time. AG concluded that in order to mitigate any possible rate shock, the Application should be approved as filed.

In response to CG's assertion that the forecast federal deferred income tax refund should be repaid in 2005, AG responded that the $6 million refund would almost fully offset $6.9 million of one-time charges for AGN customers that would occur in 2006. AG argued that moving the repayment to 2005 would cause a significant increase in rates for 2006 which may contribute to rate shock.

With respect to the proposed changes in depreciation analysis, ATCO Gas noted that CG did not find the amount to be contentious. Rather, AG argued that CG disputed the timing of those amounts. AG submitted that CG was again ignoring the impact of rate on customers and that its request for a $0.9 million reduction was unjustified.

AG submitted that it considered it inappropriate for CG to speculate on the outcome of other proceedings that may impact ATCO Pipelines. AG argued that for this reason the $1.1 million reduction sought by CG was unwarranted.

AG submitted that removing the above noted items from CG's analysis decreased CG's proposed reduction from $19.3 to $11.3 million. Therefore, AG noted that, following the reasoning of CG, an interim rate increase of at least $7.2 million should be allowed. An award of such an amount, however, would have to be premised on the assumption that the Board would completely agree with the interveners regarding the contentious issues which AG considered unlikely. AG therefore argued that the Application should be approved as filed.

4 VIEWS OF THE BOARD

AG argued that to mitigate potential rate shock, promote rate stability and maintain intergenerational equity; an interim rate adjustment would be in the best interests of customers. CG identified a number of contentious issues to be debated during the hearing. The Board recognizes that there are significant differences between AG and the interveners regarding the appropriate forecast revenue requirement.

With respect to the criteria that the Board should utilize when evaluating the need for an interim rate increase, the Board has considered the arguments of the parties and prior interim rate decisions. In Decision E92036[8] the Public Utilities Board (PUB) indicated at pages 10 and 11:

> The Board considers that an effective approach which could be used by a utility to determine an appropriate level of interim rates is to look at areas which may be contentious and to exclude all or some portion of those amounts from the amount to be collected through interim rates. In this manner the potential of over-collection from interim rates would be minimized which in turn reduces potential fluctuations to customers' rates.

In Order E93028[9] the PUB stated at page 14:

> The Board considers that interim rate increases are generally warranted where the forecast revenue deficiency identified for a given period is probable and material. The Board considers it generally appropriate that customers' rates for a period reflect the costs associated with that period in order to maintain intergenerational equity. Furthermore, approving interim rates in a timely manner avoids rate spikes that may otherwise result if recovery of the revenue deficiency is delayed.

Further, at page 18 the PUB denied NUL's request to implement an interim rate increase in respect of certain classes only, stating:

> The Board is not persuaded at this time that a need exists to change its long maintained position that interim rates should be based on an existing rate structure and costing methodology….The Board considers that this method least influences the existing Board approved rate structure.

[8] Interim Decision E92036, Canadian Western Natural Gas Company Limited, Re: Interim Rates effective April 1, 1992, dated April 2, 1992

[9] Order E93028, Northwest Utilities Limited, Re: Interim Rates for 1993, dated March 31, 1993

In Decision 2002-115[10] the Board stated at page 10:

> In the present circumstances, the Board considers that interim rate increases are generally warranted given that the forecast 2003 revenue deficiency is material. An interim rate increase aimed at recovering a portion of any shortfall that is ultimately demonstrated and approved provides for a leveling out of the impact of any final rate increase, thereby promoting rate stability and easing any rate shock to customers at a later date. The Board also considers it appropriate that customers' rates for a given period reflect the costs associated with that period in order to maintain intergenerational equity. While acknowledging the submission of the CG that ATCO has not claimed financial harm or an inability to continue safe utility operations without an interim rate increase, the Board considers it appropriate, given the magnitude of the forecast 2003 revenue deficiencies for AGS and AGN, that some degree of interim rate increase is warranted.

Further at page 11 of Decision 2002-115, the Board considered the award granted in the context of previous awards and found the percentage increase granted to be "in line with those awarded by the Board in previous interim rate Decisions."

The Board also notes the discussion in Decision 2002-108[11] of the use of carrying costs as a means of keeping parties whole and thereby potentially avoiding interim rate changes. The Board also discussed the need to consider large forecasted impacts to rates when evaluating a requested interim rate increase that appears at page 12:

> However, if large rate adjustments are forecast, the Board might decide that the need of appropriate price signals to customers is more significant than the need to minimize the number of changes in rates.

The foregoing excerpts reference a number of factors that the Board has employed in evaluating an application for an interim rate increase. These factors can be grouped into two categories, those that relate to the quantum of, and need for, the rate increase and those that related to more general public interest considerations.

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

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

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

[10] Decision 2002-115, ATCO Gas 2003/2004 General Rate Application Interim Rate Application, dated December 24, 2002

[11] Decision 2002-108, ATCO Electric Ltd. 2003 Distribution Tariff and Transmission Facility Owner's Tariff Part A: 2003 Interim DT and TFO Tariff, dated December 11, 2002

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

The Board recognizes that the above listed considerations may be given different weighting depending on the specific circumstances surrounding each application. The Board has considered the above factors in its deliberations.

The Board notes AG's comment regarding the impact of revenue shortfalls on AG's financial results for 2005[12] as stated in AG's discussion with the Board and parties in the June 14, 2005 Information Workshop. In this Application, the Board considers that the forecast shortfall of $18.5 million could be considered a material amount if the entire amount had to collected from customers.

AG suggested that $9.3 million or approximately 50% of the forecast 2005 revenue shortfall would be a reasonable interim rate adjustment. In determining the reasonableness of the requested amount, the Board notes the number of contentious issues and the amounts of revenue increases related to those issues. The Board has balanced the quantum of contentious revenue related issues with the quantum of the forecast shortfalls and the impact to rates that would be associated with a range of shortfall collection scenarios. While the amount of the requested rate increase would only constitute 2% of current customer bills, the Board considers that by the time the GRA decision is rendered and amended rates have been implemented, AG may have to collect all of the 2005 and some portion of 2006 shortfalls. Given the potential magnitude of these shortfalls, the Board considers it appropriate to award some degree of interim rate adjustment to avoid future rate shock. The Board also considers that applying the interim increase on an equal percentage basis to the energy, fixed and demand charges for all rate classes[13] is a reasonable method of applying the interim increase that is simple and cost effective to apply.

The Board considers that an increase in rates, on an interim basis, to generate an amount of $7.0 million in additional revenue in 2005 compared with current rates, will mitigate the risk of future rate shock caused by additional rate increases during 2006, maintain intergenerational equity, ensure rate stability and provide a reasonable level of revenue to the Applicant. The Board considers that this level of increase is sufficient to recognize the possibility of some increase being awarded with respect to rates in 2005 and therefore alleviating the impact of collecting shortfalls during 2006.

The Board has prepared Appendix 1 showing the Interim Rates to be applicable to billings on and after September 1, 2005 until replaced by subsequent decisions or orders of the Board.

In determining the level of interim rates for AGN, the Board is not making any finding or determination with respect to any of the matters to be considered in the upcoming GRA. The Board recognizes that the evidence before it is untested and that a number of areas of concern identified by the interveners could result in an adjustment to forecasted shortfalls.

[12] AG Application letter June 8, 2005 P1
[13] Equivalent to the "Across-the-board" basis per AG submission

5 ORDER

IT IS HEREBY ORDERED THAT:

(1) Appendix 1, Rider G of this Decision is hereby approved as an additional rider to the current rate schedules, on an interim basis for ATCO Gas North service zone, applicable to billings on and after September 1, 2005 until replaced by subsequent orders of the Board.

Dated in Calgary, Alberta on August 29, 2005.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

Gordon J. Miller
Member

(original signed by)

Laurie J. Bayda
Acting Member

APPENDIX 1

Effective by Decision 2005-099
On consumption September 1, 2005

ATCO GAS NORTH
RATE RIDER "G" TO DELIVERY SERVICE RATES

Applicable to the fixed and variable charges in ATCO Gas North DSP Delivery Service Rates 1, 11, 3, 13 and 13b. Effective on all consumption commencing September 1, 2005.

Surcharge to Fixed Charge, Variable Charge and Demand Charge	9.96%