



ATCO Gas South

2003/2004 Gas Storage Services Agreement
Placeholder Forecasts

November 8, 2005

ALBERTA ENERGY AND UTILITIES BOARD

Decision 2005-121: ATCO Gas South

2003/2004 Gas Storage Services Agreement Placeholder Forecasts

Application No. 1388661

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640 – 5 Avenue SW

Calgary, Alberta

T2P 3G4

Telephone: (403) 297-8311

Fax: (403) 297-7040

Web site: www.eub.gov.ab.ca

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ALBERTA ENERGY AND UTILITIES BOARD

Calgary Alberta

ATCO GAS SOUTH 2003/2004 GAS STORAGE SERVICES AGREEMENT PLACEHOLDER FORECASTS

Decision 2005-121
Application No. 1388661

1 INTRODUCTION

On February 28, 2005, the Alberta Energy and Utilities Board (EUB or the Board) received an application (the Application) from ATCO Gas South (AGS), requesting final approval of the forecasted placeholder amounts which had been included in the approved 2003/2004 General Rate Application (GRA) revenue requirement,¹ in respect of the fees to be paid to ATCO Midstream (Midstream) pursuant to the Gas Storage Services Agreement² (Storage Services Agreement). Pursuant to the Storage Services Agreement, AGS contracts Midstream to manage and operate its Carbon storage facility (Carbon) assets which consist of both storage facilities and production assets.

The Panel assigned to deal with the Application consists of B. T. McManus, Q.C. (Presiding Member), J. I. Douglas, FCA (Member), and M. W. Edwards (Acting Member). Notice for the Application was issued by the Board on March 11, 2005.

On March 18, 2005, the Board received submissions from: the Utilities Consumer Advocate (UCA), The City of Calgary (Calgary) and the Alberta Urban Municipalities Association (AUMA). The UCA and the AUMA did not object to the Application, nor did they object to the Board's proposed written process to deal with the Application. Calgary objected to the Application being approved without further process, and while it did not object to a written proceeding for the Application, it suggested that the Board consider an oral hearing so as to afford interveners the opportunity for cross-examination. After considering these submissions, the Board decided that a written process was sufficient to enable a thorough evaluation of the Application.

The Board issued the Process and Schedule Letter (the Process Letter) on April 4, 2005, outlining the following process:

Table 1: Process and Schedule set out on April 4, 2005

Process Step	Deadline
Information Requests (IR) to AGS	Tuesday, April 19, 2005
Information Responses from AGS	Wednesday, May 4, 2005
Deadline for submissions on Second Round of IRs	Wednesday, May 11, 2005
Reply by AGS (if any)	Monday, May 16, 2005
Argument	Thursday, May 26, 2005
Reply Argument	Friday, June 3, 2005

The Process and Schedule was later revised by the Board as explained in the following section.

¹ Decision 2003-072 – ATCO Gas 2003/2004 General Rate Application, October 1, 2003, p. 205

² Gas Storage Services Agreement entered into on February 20, 1998 between CWNG (now ATCO Gas) and ATCO Gas Services Ltd. (now ATCO Midstream)

2 BACKGROUND

Since 1998, AGS has contracted with Midstream to provide Carbon storage management and operations services pursuant to the Storage Services Agreement. Appendix “A” – Scope of Services portion of the Application, outlines the work performed by Midstream in 2003 and 2004. Nine areas are identified in Appendix “A”: operations; gas coordination; storage reservoir and facilities; production reservoirs and facilities; planning; regulatory support; production accounting; surface and mineral land management; administration and marketing services (Storage Services). The services identified in Appendix “A” appear to have been modified from time to time although no formal amendments have been filed. In addition, the parties entered into the Uncontracted Capacity Agreement addendum. The periodic changes to the Uncontracted Capacity Agreement are not the subject of the present Application.

AGS seeks approval of the \$1.2 million fee to be paid to Midstream in each of 2003 and 2004 under the Storage Services Agreement for the Storage Services. For each of these two test years, \$250,000 of the fee is to be capitalized in each year as illustrated below.

Table 2: Placeholder Amounts Requested for Approval

Placeholder	2003 Forecast	2004 Forecast
Charged to Operations and Maintenance	\$950,000	\$950,000
Charged to Capital	<u>\$250,000</u>	<u>\$250,000</u>
TOTAL	\$1,200,000	\$1,200,000

On April 19, 2005, Calgary and the newly formed Consumer Group (CG) provided AGS with their respective IRs. CG is composed of following interveners: AUMA, UCA, Consumers’ Coalition of Alberta (CCA), First Nations (AbCom) and Public Institutional Consumers of Alberta (PICA). The Board also furnished AGS with its IRs.

Both AGS and Midstream participated in the 2004 Mercer Total Compensation Survey for the Petroleum Industry (MTCS). They were among the 122 entities that submitted data for the 2004 survey year. It was the 2004 MTCS data from which Midstream drew upon to support the Application. The Board understands that the MTCS has been conducted annually since the early 1970’s and is the longest running and most widely recognized source of comprehensive compensation and benefits information for the Canadian oil and gas industry. The compensation elements included in MTCS surveys are base salaries, short-term incentives, long-term incentives, total direct compensation, perquisites, compensation policies and practices.³

On May 4, 2005, AGS responded to the IRs. In its IR Response to BR-AGS-3, AGS undertook to provide the Board with the “comfort letter” from Mercer (Mercer Letter) as soon as it was available. Midstream participates in the Mercer Total Compensation Survey for the Petroleum Industry (MTCS). The Mercer Letter was to confirm AGS’s appropriate use of the MTCS data from 2004 and to detail the methodology and benchmarking used for position comparisons.

³ Response to CAL-AGS-1(d), in the Attachment, pp. 2-4

Calgary submitted to the Board on May 11, 2005, that it did not view the AGS's IR Responses as helpful and that it was undertaking preparation of a motion to compel further and better responses from AGS. Furthermore, Calgary suggested that an oral hearing was appropriate in the circumstances.

On May 17, 2005, Calgary submitted a Motion (First Motion) to the Board pursuant to Rules 9 and 29 of the Board's *Rules of Practice* for a direction from the Board to require AGS to provide full and adequate responses to certain Calgary IRs.

On May 19, 2005, the Board informed interested parties that it would suspend the schedule to allow for further process surrounding the First Motion. Also on this date, AGS submitted to the Board a revision to IR number BR-AGS-3, which included the promised Mercer Letter.

On May 25, 2005, AGS responded to the First Motion and Calgary replied on June 1, 2005. AGS provided certain clarifications on June 22, 2005 and Calgary responded on June 28, 2005.

On June 3, 2005, AGS submitted correspondence with the Board requesting the opportunity to respond to Calgary's letter of June 1, 2005. By letter of June 14, 2005, the Board permitted interveners to submit IRs to AGS with respect to the Mercer Letter. The Board also provided AGS with IR BR-AGS-6, in which the Board requested additional peer group data developed by Mercer regarding ATCO position compensation levels that were left out of the page 3 table (the Table) in the Mercer Letter.

On June 20, 2005 AGS submitted a Request for Confidentiality with respect to the information which was omitted from the Table in the May 19, 2005 filing. AGS indicated that Midstream had expressed concern with the impact to its human resources department and that release of this information could reasonably be expected to result in significant harm to the relationships between the company and its employees, as well as between the employees themselves.⁴ AGS requested that the additional information be granted confidential treatment pursuant to section 12 of the *Rules of Practice*. AGS submits that the additional information is properly the subject of a request for confidentiality.⁵

On June 22, AGS provided IR Responses pertaining to the Mercer Letter.

On July 4, 2005, Calgary submitted another Motion (the Second Motion) to the Board pursuant to Rules 9 and 29 of the Board's Rules of Practice for a direction from the Board to require AGS to provide full and adequate responses to its additional information requests relating to the Mercer Letter.

On July 5, 2005, the Board issued its ruling on AGS's request for confidentiality Under Rule 12. The Board reconsidered the need for the data required to complete the Table as requested in its Information Request No. 2 in light of the fact that AGS has raised concerns with respect to the public disclosure of this information. Without making a determination on the merits of concerns raised by AGS, the Board concluded that although the information would be of some assistance to the Board, the Board considered that it could continue to evaluate the Application without

⁴ 2005-06-20: AGS Request for Confidentiality Letter to the Board, p.2

⁵ Ibid

obtaining the requested information at this time. Accordingly, the Board withdrew its Information Request No. 2 from the proceeding.

Also on July 5, 2005, the Board issued its ruling on both the First Motion and the Second Motion, and dealt with Calgary's request for an oral hearing. The Board did not require AGS to provide further response to most of the IR Responses which were the subject of the Calgary Motions, although it did note that the burden of proof is on the utility applicant to adequately support its position; a consideration that every utility applicant must carefully assess when declining to provide relevant information that may be of assistance to parties and the Board. The Board was also not convinced that an oral hearing was necessary in evaluating the Application and set August 2, 2005 as the date for Argument and August 11, 2005 for Reply Argument.

Argument and Reply Argument was provided by AGS, Calgary and CG. The Board considers that the record for this Application closed on August 11, 2005.

3 ISSUES

AGS seeks approval of the \$1.2 million fee to be paid to Midstream in each of 2003 and 2004 under the Storage Services Agreement for the Storage Services. Each year, \$250,000 of the fee is capitalized. AGS is of the view that the Storage Services provided by Midstream have evolved over time. Expanded services have been provided by Midstream but the Storage Management fee has remained constant since 1998. For example, AGS stated that it eliminated its Production department coincident with the sale of its gas production properties. The work that the Production department, according to AGS, performed related to Carbon was absorbed by Midstream without an adjustment in the fee payable under the Storage Services Agreement.⁶

AGS also pointed to the increasing responsibility undertaken by Midstream to with respect to compliance with safety legislation. AGS argued that these examples help illustrate the added value provided through the good working relationship between AGS and Midstream. While the services have evolved over time, the 1998 agreement still captures the essence of the services provided.⁷

In Decision 2002-072,⁸ the Board determined the following:

Accordingly, the Board expects that, at the termination of the existing contract, AGS will establish future agreements for gas management services through use of an RFP process. Alternatively, AGS may use consultants to determine the FMV of services provided by Midstream based on the findings of Decision 2002-069. In that Decision the Board directed ATCO, "...prior to any future material engagements of consultants to undertake a price review applicable to I-Tek and the regulated Utilities, to file terms of reference applicable to the engagements. Following participation of the parties, the Board will make a preliminary determination as to the reasonableness of those terms of reference to assist in providing a complete and useful record for future applications".⁹

....

⁶ Application, p. 4

⁷ Ibid

⁸ Decision 2002-072 – ATCO Gas, Transfer of Carbon Storage Facilities, dated July 30, 2002

⁹ Decision 2002-072, p. 50

...

The Board's comments with respect to determining the FMV for the Gas Management Services Agreement also apply here to the Gas Storage Services Agreement.¹⁰

In the Application, AGS proposed to balance the cost of confirming the value of Storage Services with the value of the services themselves. AGS determined that a collaborative benchmarking process, as suggested in Decision 2002-072 would not be in the best interest of its customers as it would result in additional costs for customers. AGS estimated that the collaborative benchmarking would cost approximately \$200,000¹¹ for the consultant's report only, as well as significant additional costs for the collaborative process to establish the terms of reference. Furthermore, AGS is concerned that a formal benchmarking process would cause further delay in the finalization of its 2003/2004 revenue requirement forecast.¹²

AGS recommended that the assessment methodology provided in the Application be used to assess the reasonability of the placeholder forecasts for the 2003/2004 revenue requirement. In the event that the Board did not agree with this approach, AGS indicated that it would proceed with a benchmarking exercise.¹³

The assessment methodology reviewed the types of positions required for the management of the Carbon storage and production assets, and the percentage time required from each of those positions in order to provide the Storage Services. The Mercer Letter was filed to support the AGS analysis.

AGS also suggested that comparing the price paid for the services with the value of the assets under management indicated that the fee represented less than 0.4% of the asset value.¹⁴

AGS explained in the Application that an overhead rate has been used to estimate additional costs related to the staff for things such as fringe benefits, office space, computer charges, travel, supplies, etc. The overhead rate of 57%¹⁵ is the rate used by AGS in 2004 related to its affiliate transactions, in the determination of charges on a cost recovery basis.¹⁶

The Board has identified the following matters requiring review and determination:

- Compliance with the previous Board Direction
- Use of AGS alternative analysis as supported by the Mercer Letter
- Confidentiality Issues
- Justification of the Storage Management Fees

¹⁰ Decision 2002-072, pp. 50-51

¹¹ Response to BR-AGS-1(b)

¹² AGS Argument, 2005-08-02, p. 2

¹³ Application, p. 3

¹⁴ AGS Argument, p. 4

¹⁵ Response to BR-AGS-4

¹⁶ Application, p. 5

4 VIEWS OF THE BOARD

The Board has reviewed the evidence, argument and reply argument related to each of the issues from parties to the proceeding. Any references to specific parts of the record are to assist the reader in understanding the Board's decision, but should not be taken as an indication that the Board did not consider the entire record in the course of its deliberations.

4.1 Compliance with Previous Board Direction

In Decision 2002-072 (p. 50), the Board directed AGS to conduct either a request for proposal (RFP) process or use consultants to determine the fair market value (FMV) of services provided by Midstream based on the findings of Decision 2002-069.¹⁷

In its Application,¹⁸ AGS proposed an alternative to using an RFP or benchmarking process stating that in its experience with the benchmarking of the ATCO I-Tek and I-Tek Business Services agreements demonstrated that benchmarking exercises are not processes which can be quickly completed. In AGS's view the exercises are costly processes to undertake and argued that interested parties are also challenged to find time to participate in these benchmarking processes given the heavy regulatory schedule.¹⁹

In the Application, AGS provided an assessment of the value of the services provided based on an estimate of the time and staff required to perform the services, and the appropriate compensation levels for that staff as per the MTCS.²⁰

AGS suggested that the alternative methodology for determining the value of the Storage Services was reasonable in light of AGS's objection to the Board's jurisdiction to direct the implementation of the 2005/2006 Storage Plans and the decision by AGS management to regard the Carbon storage operation as not required to provide safe, reliable and economic gas distribution service.

The Board notes Calgary's submission that as a result of the affiliate arrangement, the Board directed that AGS either use an RFP to obtain the services or use a benchmarking study, similar to that used for ATCO I-Tek Inc. Calgary observed that AGS chose to provide other "evidence" that the fee was appropriate and implied that the fee amount was relatively small and as such it was choosing to supply significantly less information than would have been provided in a benchmarking process.

The Board also notes that the CG accepted the alternative proposal advanced by AGS for determining the reasonability of the \$1.2 million per year placeholder amounts for 2003 and 2004 and indicated that it was satisfied that the analysis provided a sufficient justification for approving the placeholder amounts on a final basis.²¹

Although the Board agrees with Calgary that AGS did not strictly comply with the Board's direction on how to establish an appropriate fee for the Storage Services Agreement, the reasons

¹⁷ Decision 2002-069 – ATCO Group Affiliate Transactions and Code of Conduct Proceeding. Part A: Asset Transfer, Outsourcing Arrangements, and GRA Issues, dated July 26, 2002

¹⁸ Application, pp. 2-3

¹⁹ Application, p. 2

²⁰ Application, pp. 2-3

²¹ CG Argument, p. 1

provided for the course pursued appear well conceived. The methodology selected is similar to a benchmarking exercise through the utilization of the MTCS. The Board acknowledges that RFPs and benchmarking processes can be expensive and time consuming and in this case the placeholder amount is a relatively small amount. Further, the Board notes that Section 4.5 of the ATCO Group Inter-Affiliate Code of Conduct provides that in demonstrating fair market value in connection with inter-affiliate services a utility "...may utilize any method to determine Fair Market Value that it believes appropriate in the circumstances". The Code was approved by the Board in Decision 2003-040²² dated May 22, 2003, subsequent to the direction of the Board in Decision 2002-072. Given the above, the Board considers it acceptable that AGS changed the approach utilized to demonstrate fair market value. However, the Board suggests that in future, AGS request the permission of the Board prior to adopting a course of action that is at variance to a Board direction.

4.2 Use of AGS Alternative Analysis as Supported by the Mercer Letter

In this section the Board will consider if the AGS alternative methodology for assessing FMV of the Storage Services Agreement, supported by the Mercer Letter, provides sufficient evidence to evaluate the justification for \$1.2 million 2003 and 2004 placeholders in revenue requirement.

In the Application AGS submitted that the methodology employed to confirm the FMV of the Storage Services Agreement reviewed the types of positions required for the management of Carbon and the percentage of time required from each of those positions in order to provide the Storage Services. Appendix "B" to the Application described the rationale behind the time allocation for each Midstream position involved in providing the Storage Services. Only Midstream staff were involved in determining the time allocation estimates, which were completed during the last quarter of 2004. Midstream employees were asked to estimate the percentage of time they spent in 2003 and 2004 performing the services identified in Appendix "A" of the Application. The employee estimates were then reviewed by the employees' supervisors and AGS staff. Daily or weekly time logs were not used to keep track of a person's hours.²³ Aside from the time estimates, the duties of each staff position were also detailed in Appendix "B".

Appendix "C" to the Application provided an assessment of the value of the work performed, which in the opinion of AGS supported the fee that AGS is paying Midstream. Appendix "C" was comprised of two components: the time allocation for each position and the compensation per position. MTCS data was used in conjunction with the time estimates described in Appendix "B" to estimate the labour costs. This analysis estimated the value of the Storage Services at about \$1.6 million.²⁴ Given the 30% difference between the cost identified in Appendix "C" of the Application (\$1.6 million) and the \$1.2 million fee payable under the Storage Services Agreement, AGS asserted that it was reasonable to assume that there was a strong possibility that the cost of the contract would need to be increased if a benchmarking study were undertaken.²⁵

AGS submitted that the Mercer Letter supported its analysis. In the letter, Mercer provided its opinion regarding the appropriate use of its MTCS data. Also, the letter summarized Mercer's

²² Decision 2003-040 – ATCO Group, Affiliate Transactions and Code of Conduct Proceeding Part B: Code of Conduct

²³ Response to BR-AGS-5(a) to (d)

²⁴ AGS's Appendix "C", Revised 2005-05-19

²⁵ Response CAL-AGS-2(c)

approach in estimating the aggregate base salary and total cash (i.e. base salary plus annual incentives) compensation levels for the Midstream positions from a custom peer group of companies within the 2004 MTCS.

Mercer reported that it created a peer group consisting of 25 out of the 122 MTCS-subscriber organizations from the 2004 survey year. This custom peer group had a 52% weighting on the pipeline and midstream sector. Based purely on the job descriptions provided to Mercer, it matched 13 of the 14 Midstream positions to benchmark jobs in the MTCS.²⁶

The Manager, Energy Services & Regulatory position was unable to be matched by Mercer due to the lack of an appropriate benchmark match. Mercer noted that some of these Midstream employees provided services to AGS on a limited basis. Therefore, Mercer allocated a portion of the median total cash compensation based on the information provided in the Application. Mercer stated that it had no opinion as to the appropriateness of this time allocation.²⁷

Mercer noted that AGS sought its estimate of the aggregate compensation levels necessary to be competitive on a salary and total cash compensation basis. However, as many of the employers in the Canadian energy sector provide long-term incentive opportunities for their employees, Mercer had also estimated a total cost of AGS to be competitive on total direct compensation (i.e. total cash compensation plus perquisites plus the expected value of long term incentives.) On an aggregate basis, total direct compensation was approximately \$966,000, exclusive of the cost for 50% of the Manager, Energy Services & Regulatory for which Mercer had no job match. This amount was 10% higher than the aggregate total cash compensation figure of \$877,000 as illustrated in the Table.

On May 19, 2005, Appendix “C” to the original Application was revised and resubmitted to the Board by AGS. The revised Appendix “C” incorporated the results of the Mercer analysis and included an estimated Median Target Total Cash Compensation for the Manager, Energy Services & Regulatory at \$100,000. By incorporating the revisions, AGS’s new estimated value of Storage Services was about \$30,000 less than the original Appendix “C” estimate. AGS was of the view that while the Mercer analysis confirms there were some small errors in how the MTCS survey data was used, the errors were not significant and did not distort the outcome of the estimate.²⁸

The Board notes Calgary’s concern that AGS had not shown that the positions/FTEs (full time equivalents) that Midstream alleges are used to provide the Storage Services are consistent with the Mercer study, or that the Mercer study was determinative of the appropriate compensation. However, the Board notes AGS’s assertion that the position descriptions provided to Mercer were more detailed than those included in the Application.²⁹ The Board is satisfied with AGS’s explanation of the position descriptions provided to Mercer.

The Board has reviewed the AGS methodology as support by the Mercer Letter and finds, subject to the discussion of confidentiality issues below, that it is a reasonable approach to derive an estimated current market value of the Storage Services. The Mercer Letter provides an

²⁶ Response to BR-AGS-3, Mercer Letter Attachment, p. 2

²⁷ Ibid

²⁸ Response to BR-AGS-3, p. 2

²⁹ AGS Reply Argument Attachment, p. 7

independent determination of the salary levels for the majority of the positions identified in determining the fee.

4.3 Confidentiality Issues

In utilizing the MTCS data, Midstream and AGS were required to execute confidentiality agreements which restricted the ability of the Board and interveners to test the underlying data relied upon by AGS to demonstrate that the fee paid to Midstream under the Storage Services Agreement was appropriate. In addition, Midstream requested the deletion of the median base salary, median total cash and total cost for the 13 referenced positions, located in the Table at page 3 of the Mercer Letter.

The 2004 MTCS Confidentiality & Data Transfer Agreement (the Agreement) is included as an attachment to CAL-AGS-1(e). Neither AGS nor Midstream can disclose MTCS data under the terms of the Agreement. AGS contends that it would be required to breach a legal and binding agreement if it were to file the Mercer survey data, even under the Board's rules of confidentiality.

Calgary submitted that it is the utility applicant which has the burden of proof, and, in Calgary's submission, the Board should not be considering that burden of proof to be met where the applicant attempts to shield itself from review through the use of affiliate transactions.³⁰

The Board has determined in the preceding section that the methodology utilized by ATCO in demonstrating the fair market value of the Storage Services is acceptable. However, given that the burden of proof lies on the Applicant, the Board regrets the limitations imposed by the confidentiality agreements and Midstream's decision to censor the median base salary, median total cash and total cost for the 13 referenced positions, located in the Table at page 3. The removal of this information impacts the ability of interveners and the Board to thoroughly test and substantiate the conclusions advanced in the Application and calls into question the acceptability of utilizing this methodology in the future.

The Board is prepared, however, to accept AGS's alternative methodology as supported by the Mercer Letter as a valid method of determining fair market value of the Storage Services.

4.4 Justification of the Storage Management Fees

Having considered the validity of the methodology employed by AGS, the Board will now turn its attention to whether there is sufficient support for the costs claimed.

To justify its claim AGS did not undertake a benchmarking process, but rather supported the appropriateness of the cost of these services with the following claims:

1. The fact that the services provided by Midstream have expanded over time, yet the contract price has not increased to recognize this fact, or the effects of inflation; and
2. Comparing the price paid for the services with the value of the assets under management; and
3. Comparing the price paid for services with an estimate of the value of the services.³¹

³⁰ Calgary Argument, p. 4

³¹ AGS Argument, pp. 2-4

In regard to the first point, the Board notes that the requested amount of \$1.2 million for each of 2003 and 2004 is below the \$1.6 million submitted by AGS as being a more appropriate estimate of the value for the Storage Services. Notwithstanding AGS's claim that Midstream's services have expanded, the Board notes that the fee has remained unchanged since 1998.

In regard to the second point, AGS compared the price paid for the services with the value of the assets under management. AGS submitted that the fee represented less than 0.4% of the asset value based on the sum of the \$41 million rate base and \$300 million gas in storage (subject to the price of natural gas).³²

With respect to the value of services and the price paid, AGS had Midstream identify the people that were required to provide the Storage Services and estimate the amount of time they spent on it in 2003 and 2004. AGS asserted that it was able to confirm the reasonability of both the number of positions as well as the estimated amount of time for each position since AGS interfaced directly with many of the Midstream positions identified in the Application.

The MTCS was then used to estimate an appropriate compensation level for the positions identified. In BR-AGS-3 Mercer provided median compensation levels from a "peer group" subset of the MTCS and generated a similar result. The substance of the position matching used by AGS was corroborated by Mercer. The time estimates were then multiplied by the median compensation levels from the survey and grossed up by a 57% overhead rate to arrive at the estimated value for the services of \$1.6 million. Notwithstanding the result, AGS requested approval of \$1.2 million, the same as the existing amount in the GRA placeholders, in each of 2003 and 2004.³³

AGS supported the 57% overhead charge in BR-AGS-4 by referring to the basis upon which AGS determines the cost of services it provides to other ATCO affiliates on a "Cost Recovery Basis" under the ATCO Group Inter-Affiliate Code of Conduct. The Board agrees that the principle of using AGS's overhead costs charged for affiliate services on a Cost Recovery Basis is an appropriate proxy to use in determining the overhead charge to add to the MTCS median compensation levels. For the purposes of this limited application, the Board is prepared to accept the 57% overhead calculation as reasonable. However, in accepting the 57% overhead number in this proceeding, the Board is not commenting on the appropriateness of the percentage or the methodology by which it was determined, in connection with the provision of services on a Cost Recovery Basis by one ATCO affiliate to another. A determination on the appropriateness of using the 57% overhead figure, and the methodology by which it was calculated, in connection with services provided on a Cost Recovery Basis, to or by an ATCO utility, will require further consideration in future proceedings before the Board.

The Board notes Calgary³⁴ submission that AGS's evidence does not justify the estimated time spent by Midstream employees on Storage Services nor the fee paid by AGS. Calgary argued that the information provided by AGS does not contain sufficient detail and support, such as daily or weekly time logs to track hours,³⁵ and since the estimates of time took place in the last

³² AGS Argument , p. 4

³³ Ibid

³⁴ Calgary Argument pp. 4-5

³⁵ Response to BR-AGS-5(c)

quarter of 2004³⁶ there is no information that would support a conclusion that the last quarter of 2004 was representative of 2003 and 2004. The Board agrees that the time keeping records are poor.

The CG noted that proceedings in respect of Application 1357130, 2005/2006 Carbon Storage Plan, are underway which will deal with the future utilization/disposition of Carbon. The CG views that application as having a longer term impact on Storage Services as well as all other Carbon related matters.³⁷

The Board notes that the CG accepted the AGS evidence as sufficient to establish the placeholder forecasts as reasonable and recommended that the Board approve the \$1.2 million placeholder amounts as final in the 2003 and 2004 revenue requirements.

While the Board considers that AGS did not fully support the time spent on Storage Services attributed to Midstream personnel, the Board agrees with the CG that there is sufficient information to approve the amount of \$1.2 million for 2003 and 2004 as reasonable in the circumstances.

The Board also notes and agrees with CG's observation that a much more substantial and detailed proceeding (Application 1357130, 2005/2006 Carbon Storage Plan) is underway with respect to the future utilization/disposition of the Carbon Storage Assets. This proceeding will ultimately determine whether or not Carbon will continue to be employed in regulated service and, if so, what form of services it will provide. A review of the fee payable to Midstream for Storage Services may again be appropriate following the conclusion of that proceeding, should Carbon continue to provide regulated services.

³⁶ Response to BR-AGS-5(d)

³⁷ CG Argument, p. 2

5 ORDER

IT IS HEREBY ORDERED THAT:

- (1) The ATCO Gas South GRA placeholder forecast amounts of \$1,200,000 used in the determination of the revenue requirements for each of the test years 2003 and 2004 are approved as final.

Dated in Calgary, Alberta on November 8, 2005.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

J. I. Douglas, FCA
Board Member

(original signed by)

M. W. Edwards
Acting Member