



ATCO Gas South

2004/2005 Carbon Storage Plan

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ALBERTA ENERGY AND UTILITIES BOARD

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2004/2005 Carbon Storage Plan

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Contents

1	INTRODUCTION.....	1
2	PARTICULARS OF THE APPLICATION.....	1
3	VIEWS OF THE INTERVENERS	3
3.1	BP	3
3.2	Calgary	3
3.3	CG	9
3.4	EnCana.....	13
4	VIEWS OF AGS	14
5	BOARD FINDINGS.....	18
5.1	Jurisdiction	18
5.2	2004/2005 Storage Plan Options.....	18
5.3	COSS	21
5.4	Operating Alternatives Study.....	21
5.5	Other Matters	21
6	SUMMARY OF BOARD DIRECTIONS.....	22
7	ORDER	22

1 INTRODUCTION

ATCO Gas South (AGS or the Company), a division of ATCO Gas and Pipelines Ltd. (AGPL), filed an application (the Application) with the Alberta Energy and Utilities Board (the Board or EUB), by letter dated September 19, 2003, requesting approval of a 2004/2005 storage plan for the Carbon underground natural gas storage facility (Carbon). AGS was directed by the Board in Decision 2003-021, dated March 11, 2003, to submit an application by August 1, 2003. By letter dated July 28, 2003, AGS requested an extension to December 31, 2003. However, the Board, in its letter of August 13, 2003, denied an extension beyond September 19, 2003.

A Notice of Hearing, dated October 2, 2003, was emailed to all interested parties registered in the previous Carbon proceeding and published in the daily newspapers in AGS's service area. The public notice indicated that the Application would be dealt with using a written process unless otherwise requested by interested parties. The Notice indicated that requests for information were to be submitted to AGS by October 16, 2003, and that interested parties could submit evidence by November 10, 2003.

By letter dated November 7, 2003, the Board amended the filing dates for argument and reply argument, from those stated in the Notice, to January 9, 2004 and January 23, 2004, respectively. Accordingly, the Board considers that January 23, 2003 was the close of record for this proceeding.

2 PARTICULARS OF THE APPLICATION

The Application proposed four options for the 2004/2005 storage year at Carbon. AGS included a Carbon Cost of Service Study (COSS) and an Operating Alternatives Study with the Application.

AGS stated that in preparing its response to the Board's direction contained in Decision 2003-021 to file a 2004/2005 Storage Plan, the Company was guided by previous directions with respect to the Board's preferred use of Carbon.

AGS noted that Carbon was originally developed for security of supply of the system.¹ AGS also noted that, since Carbon had more capacity and deliverability than was necessary for utility purposes, the excess was sold to third party storage users and the revenue was used to offset Carbon's operating costs.

¹ EUB Decision 2000-9 – ATCO Gas and Pipelines Ltd., (CWNG), 1997 Return on Common Equity and Capital Structure, 1998 GRA Phase I, dated March 2, 2000, p. 42

In response to the Board's directions AGS identified certain options that the Company asserted might be pursued in order to operate Carbon for the purpose of generating storage revenues thereby maximizing the revenue credit used to reduce distribution rates. AGS stressed that there could be no guarantees that forecast revenues would actually materialize to the full extent forecast or that those revenues would even offset Carbon storage costs.

The four storage options proposed by AGS in the Application were as follows:

Option 1: Sell all Carbon capacity using a tendering process to third parties to obtain fair market value and pass the resulting revenue to customers in a rate rider. AGS considered a tendering process similar to that proposed for the 2003/2004 storage year was a viable option for dealing with Carbon in the upcoming storage year.

Option 2: The storage plan for the 2004/2005 storage year would follow the plan approved for the 2003/2004 storage year. Specifically the following would apply:

- (a) Storage capacity of 16.7 petajoules (PJ) would be reserved for the purchase and sale of gas over the 2004/2005 storage year.
- (b) The gas procurement and injection strategy used in the summer of 2003 would be applied in the summer of 2004.
- (c) The gas withdrawal plan for winter 2004/2005 would be similar to the approved 2003/2004 withdrawal plan.
- (d) The risk mitigation strategies approved for the 2003/2004 storage year would be applied in the 2004/2005 storage year.

Option 3: Same as Option 2, but utilize a physical roll-over of storage to lock in the value of optionality coupled with a financial hedge associated with a forward sale transaction.

Option 4: Same as Option 2, with consideration of carrying inventory into the following storage year, subject to forward price projections. In light of the fact that the forward price curve for 2004/2005 demonstrated that storage inventory carryover would not yield benefits, AGS sought further direction from the Board and interveners as to the decision criteria to be utilized if AGS was to depart from the base plan described in Option 2.

The COSS was filed in response to the Board's direction in Decision 2002-072, dated July 30, 2002, and subsequently repeated in Decision 2003-021, dated March 11, 2003. The COSS was to be used to establish a benchmark against which any fair market valuation for the use of uncontracted storage capacity could be compared.

The COSS was an extract from a 2002 AGS Cost of Service Study based on the approved 2002 revenue requirement that was provided in an AGS letter to the Board dated February 18, 2003. That study showed that the fully allocated cost of service for Underground Storage was \$11,885,000 or roughly \$0.27/gigajoule (GJ) (based on a nominal storage capacity of 43.5 PJ). AGS noted that this could be compared to the current rate of \$0.41/GJ currently charged to ATCO Midstream Ltd. (Midstream) for uncontracted capacity.

The Operating Alternatives Study was filed in response to the Board's direction in Decision 2001-110, dated December 13, 2001 and reiterated in Decision 2003-021. The purpose of the study was to examine the impact on revenue requirement utilizing alternatives to the existing operating parameters for Carbon, including a consideration of the use of base gas as a source of supply and changing such things as compression and the number of wells. AGS presented a preliminary study of the type suggested, but submitted that the optimal timing associated with the pursuit of any of the alternatives was debatable based on the selected outlook for gas prices.

3 VIEWS OF THE INTERVENERS

3.1 BP

The relevant issue for BP Canada Energy Company (BP) concerned the appropriate methodology for determining the fair market value (FMV) of Carbon, and/or the capacity that AGS contracted to an affiliate or third party.

BP agreed with AGS that a request for bids (RFB) process could not be fully tested, implemented and approved in time for the current storage season. BP also agreed with Calgary that the issues related to the 2004/2005 storage plan, including the determination of the FMV of uncontracted capacity, needed to be considered well in the advance of the commencement of the storage year.

BP agreed with EnCana that Calgary's proposed RFB process was an improvement over Option 1 as proposed by AGS. BP submitted that should the Board approve an RFB process for the 2004/2005 storage year, then BP preferred a process based on the Calgary model, even though, in its opinion, there was room for improvement in that model.

BP stated that for optimal results for stakeholders and realization of the Board's expectations, as stated in previous Decisions dealing with the determination of FMV and affiliate transactions, proposed solutions needed to be raised, discussed and reviewed in a timely fashion. This would be necessary before implementation. Accordingly BP stated that it was simply too late for any fundamental changes to be made for the 2004/2005 storage year.

3.2 Calgary

The City of Calgary's (Calgary) evidence included a specific tendering proposal that could be used to market the uncontracted capacity. Calgary believed that prior Board Decisions with respect to Carbon had recognized its value, and the obligations of AGS, and had resulted in increasingly explicit directions to AGS with respect to discharge of its obligations and the type of filings it should be making. Calgary viewed the Application as not fully addressing the issues that AGS was directed by the Board to address in its most recent decisions on Carbon.

Calgary recommended that the Board adopt the storage plan detailed in the report of its primary consultant, Energy Objective Ltd., which was filed as evidence in this proceeding. The report contemplated that 21.7 PJ of capacity would be allocated for AGS customer use, and managed in accordance with Option 3, and that the balance of available storage be managed in accordance with Option 1 using the processes detailed by Energy Objective. Calgary preferred Option 3 to reduce risk exposure since the hedging responsibility recommended in Option 3 locks in the

value of optionality. Without the hedging, the value of optionality was lost as there was no guarantee that the value identified when deferring withdrawals to a later date would exist in the market when that day actually arrived. Calgary submitted that if AGS was relieved of the gas supply function for 2004/2005, then Option 1 could be applied to the entire available storage volume. In order to capture the value of Carbon in the short-term and to better understand the value of Carbon in the long-term, Calgary recommended the use of an RFB process under Option 1 for 21.8 PJ and a reservation of 21.7 PJ of capacity for AGS using Option 3.

Calgary noted that in past proceedings it had been of the view that compensation for optimal management of a rate base asset such as Carbon was included in the AGS return. However, Calgary submitted that AGS was reluctant to take steps to manage Carbon in what Calgary considered to be an optimal manner for AGS customers under the conventional regulatory model. Calgary was also aware that other utilities with excess storage in Canada had negotiated incentive arrangements with customers. Consequently, Calgary believed that exploring incentive arrangements was now appropriate. Calgary submitted a recommendation for sharing revenues 25% to the utility and 75% to the customers.

Calgary expressed concern that customers were not seeing the entire value that Carbon can contribute to reduction of service rates as a rate base asset. AGS had not been proactive in presenting to the Board, and interested parties, a plan that undertakes to maximize the value of Carbon to customers. While of the view that a collaborative solution was best, Calgary also recognized that the use of Carbon could not continue to be tied up in a regulatory “purgatory” at the expense of customers because consensus could not be reached in time and that a “default” status quo decision was the only practical answer. Calgary's view was that AGS had abrogated its responsibility, as owner and operator of utility owned storage, to examine and recommend an operational mode in which the Carbon storage facility was best managed for the benefit of customers.

Calgary argued that the Board, in numerous Decisions had rejected AGS's assertions that Carbon was not required for operational purposes. Calgary submitted that Carbon, as a legacy rate base asset, was still required and useful as it could continue to generate long-term benefits for customers, and that evidence filed in previous hearings had supported the value of Carbon to customers. Calgary submitted that customers remain responsible for the full cost of owning and maintaining the Carbon asset including related management costs. However, over the past five storage years, 2000/2001 – 2004/2005, AGS had not attempted, nor proffered, a defined storage plan to optimize those benefits. Calgary believed that the record clearly showed an on-going reluctance by AGS to recognize the fundamental value of storage and to follow the directives of the Board with respect to Carbon.

Calgary submitted that AGS took no position the Application, refused to participate in a collaborative process, and failed to file Rebuttal Evidence. Calgary considered that AGS's Argument:

- was, in essence, a *de facto* request for a review and variance based on issues and arguments already considered in prior proceedings,²

² For example, AGS Argument, Page 1, line 18-19; Page 1, line 25 - Page 2, line 6; Page 2, line 18 – Page 3, line 3; Page 3 lines 4 – 8; Page 9, lines 4 – 5; Page 11, lines 6 – 8

- contained new evidence that should have been contained in the Application, let alone in Rebuttal,³
- contained legislative and jurisdictional arguments that either should have been in the Application, or were a *de facto* application for review and variance.⁴

Calgary argued that AGS had wasted everyone's time and that the Company's objective, as stated in its argument, was as follows:

AGS submits that in light of the aforementioned decisions and due to practical limitations, that it is appropriate that the entire 43.5 PJ, less existing contractual commitments, continue to be contracted to ATCO Midstream at the approved rate of \$0.41/GJ.⁵

Calgary considered that AGS's reference to "toll and tariff regulation of only one of Alberta's commercial storage businesses..."⁶ in addition to being similar to arguments that AGS had advanced in the past, was an argument that had no foundation in fact and was a "red herring". To the best of Calgary's knowledge, tolls and tariffs for third party use of Carbon had never been established by the Board, and no proposals for "toll and tariff" regulation of Carbon had been advanced in prior proceedings.

Calgary noted that Carbon was developed decades ago as a rate base asset to serve rate base customers. It has been in rate base ever since, with ratepayers bearing all of the risks with respect to its costs, and shareholders earning their fair return. Calgary submitted that from the start, Carbon was developed with capacity well in excess of the distribution utility requirements. That excess capacity was also included in rate base, with ratepayers again bearing the risk for costs. Revenues from that excess capacity were a credit against the owning and operating costs of Carbon. Calgary noted that Carbon was originally developed for utility use, and, as such, the Board had repeatedly directed AGS to operate Carbon for the benefit of customers with the revenues generated to be used as a credit against the costs. A revenue credit to the party at risk for the costs of an asset was in no way a "subsidy", "gift" or "grant".

Calgary argued that the objective with any rate base asset was that it should operate for the benefit of customers. Where the facility had been developed with excess capacity, and where that capacity had been expanded with ratepayers at risk for the cost, AGS should be seeking the best value for customers out of the asset. As circumstances change, the methods used to achieve that value may have to change. Conceptually, AGS was in no different position from various pipeline companies, which either developed excess capacity, or found themselves with excess capacity in circumstances prevailing at the time. Those companies had to do the best they could to generate revenue from the assets. They could not simply continue a prior mode of operation, let the assets sit idle, or turn them over to an affiliate.

Calgary noted that the last Carbon expansions were undertaken by Canadian Western Natural Gas Company Limited (a predecessor to AGPL) in the period between the 1992/93 and 1997/98

³ For example, AGS Argument: AGS Argument Page 3, line 26 – page 4, line 3; page 4 lines 4 – 8; Page 6, lines 18 – 21; Page 7, lines 13 – 14; Page 9, Lines 1 – 4; Page 9, lines 19 – 23

⁴ AGS Argument, Page 2, line 18 – Page 3, line 11; Page 11, line 10 – Page 12, line 2

⁵ AGS Argument, Page 6, lines 18 – 21

⁶ AGS Argument, Page 9, lines 4 -5

rate cases without any consultation with customers. To the best of Calgary's knowledge, no intervener had suggested expanding the Carbon operation as an "adventure". Calgary argued that interveners were merely trying to ensure that value was achieved from the asset that had been in rate base for many years.

Calgary argued that interested parties had never suggested that AGS acquire rate base assets to engage in some "other competitive business" to obtain revenue credits, and were only trying to deal with Carbon, as a particular legacy asset.

Based on the evidence filed, Calgary requested that the Board order AGS to address the following issues for the upcoming 2004/2005 storage year:

- Provision of an ongoing reservation of capacity for utility customers.

Calgary recommended that 21.7 PJ be reserved for utility customers. In addition, this volume should be managed by AGS under Option 3, which would ensure that any volumes related to the exercising of the optionality model would require a physical or financial hedge to lock in the value of that optionality. While there are risks associated with Option 3, AGS currently manages the risk associated with Option 2 from which Option 3 was derived. Calgary argued that AGS was capable of managing the risks related to Option 3.⁷

- Clarification in the Carbon Storage Service Agreement of the amount of Carbon capacity available for tender.

Calgary recommended that 21.7 PJ be made available for tender.

- An RFB process that auctions smaller blocks of Carbon capacity to achieve the highest potential FMV and bid participation.

Calgary argued that an RFB process consistent with the Energy Objective Evidence would be open to bids and could provide for smaller blocks of Carbon capacity. This would optimize the potential bid participation and potential FMV of storage.

- Rejection rights reserved by AGS.

Calgary submitted that AGS should be allowed to reject those bids or nominations that AGS could document and justify as representing an unmanageable risk to AGS or its utility customers, or which would result in less benefit than could be expected to be achieved under Option 3.

- The affiliate right to match the highest bid in a manner in keeping with the achievement of fair market value for the capacity.

Calgary submitted that an affiliate of AGS should not be allowed a first right of refusal on bids provided during the RFB process, but that an affiliate would be able to bid under the same terms and conditions required of other bidding parties.

⁷ Refer to response to Information Request BR-AGS-14

- The zero inventory requirement for Carbon at end of the storage year, and the provision of flexibility to the successful bidder, if there was an overrun into the next storage year.

All parties who successfully tendered for storage must maintain a zero inventory for Carbon at the end of the storage year, but all parties should be allowed the opportunity to negotiate with AGS for the option to have a storage overrun for a mutually acceptable fee.

- The nature of the confidentiality agreement as compared to ordinary commercial terms for these agreements.

Calgary argued that there was no need for a confidentiality agreement as the Energy Objective RFB process would not require bidders to access operational information pertaining to Carbon. Maximum capacity and deliverability volumes would be stated in the RFB.

- Justification for the rationale behind a reserve or deemed highest bid, including the basis of the reserve bid amount.

Calgary submitted that there should not be a reserve or deemed highest bid. All bids received during the RFB would be indicative of market value at that time. If the bids were less than what AGS could earn utilizing storage itself and hedging a summer/winter differential then AGS had the opportunity to reject the bids.

- Whether all customers should share in curtailments on a pro rata basis based on their respective firm rights.

Calgary proposed that, in circumstances where injections or withdrawals from the Carbon facility had been justifiably curtailed, all firm customers should share in the curtailments on a pro rata basis based upon each user's respective rights.

- The need for appropriate access to data room information and a reasonable time for due diligence.

This access would not be required under the proposed RFB process.

- Provision of sufficient time for the regulatory process.

Calgary argued that while there was limited time available to undertake the RFB for the upcoming 2004/2005 storage year, with a decision prior to the first day of March 2004 it would still be plausible to undertake the RFB, although market conditions might provide for less than optimal prices (as compared to what could have been achieved if the process had been in place earlier). Accordingly, the decision of the Board should ensure that the process was continued for subsequent years to allow for a greater period of time available for tendering future storage services.

- Provision of a refund of the fee to the successful bidder and for the flow through of the balance of the fees to the Company-Owned Storage Rate Rider.

Calgary submitted that there would not be a fee for bidding. All reasonable costs associated with the tendering process would be included in the cost of service.

Calgary noted that AGS had not provided any evidence to refute Calgary's proposals on the foregoing issues.

Calgary argued that the Board was dealing with an uncooperative utility which disputed the Board's jurisdiction with respect to storage, was intent on transferring Carbon value to an affiliate, and had presented "Options" to the Board in its Application, some of which it now asserted it could not or would not implement. Calgary was of the view that dealing with an uncooperative utility would not facilitate implementation of options in a tight time frame. Consequently, Calgary made the following caveats in its Argument:

- (a) Calgary originally recommended a sharing of storage revenues of 25% to the utility and 75% to the customers. Calgary no longer considered this revenue sharing to be appropriate. This proposal was intended as an incentive to compensate AGS for participating in active and creative management of the Carbon asset based on experience in other jurisdictions. AGS had rejected this proposal.⁸
- (b) Calgary recommended that any Board directive with respect to Option 3 specify that, if Option 3 cannot be implemented in time, the fallback position is Option 2. However, Calgary argued that, if the fallback to Option 2 takes place, AGS should be expected to fully justify why it could not implement Option 3, and be subject to prudence review considerations.
- (c) Calgary remained of the view that Option 1 was the preferred option for the 21.8 PJ not reserved for AGS customers. However, the timing would be tight for implementation of an RFB process prior to the start of the storage year. This concern was heightened in Calgary's view by the prospect of dealing with an uncooperative utility, which preferred dealing with an Affiliate. Calgary recommended that any Board directive with respect to Option 1 specify that, if Option 1 cannot be implemented in time, or if bids received are not satisfactory, the fallback position is Option 3.

Calgary argued that the granting of exclusive use of Carbon by Midstream would be moving away from establishing a fair market value of Carbon. This situation would be increased if the \$0.41/GJ rate were used when recognizing that this rate had not been tested since the Transfer of Carbon Storage Facilities Proceeding⁹ in 2002. Any such action could, in Calgary's view, provide an actual subsidy to Midstream versus the fair market value of Carbon to ratepayers.

With respect to the COSS, Calgary argued that AGS had failed to provide a study to establish a cost of service benchmark for Carbon to assist in measuring the fair market value. While AGS had addressed the current (2002) cost of service of Carbon it had failed to address the current value of Carbon in order to provide some input regarding the measure of Carbon's fair market value.

With respect to the Operating Alternatives Study, Calgary submitted that the study was not comprehensive enough and provided no recommendations. In order to evaluate this study further,

⁸ AGS Argument, page 9

⁹ Refer to Decision 2002-072

Calgary would require additional time and resources¹⁰ and/or discussion with AGS and other parties. Calgary could not comment on the appropriate optimization plan for Carbon at this time.

Calgary noted that the Board had approved the sale of the ATCO Gas retail functions to Direct Energy in Decision 2003-098, dated December 4, 2003. Calgary submitted that if the sale was implemented prior to March 1, 2004, the 21.7 PJ of capacity under Option 3 should be rolled into the RFB process. If the sale was not implemented prior to March 1, 2004, AGS should proceed with utilization of the 21.7 PJ under Option 3.

What was not clear to Calgary from the AGS Evidence in the 2003/2004 GRA proceeding was the level of insurance coverage, that is, whether it was for all gas stored in Carbon or just the 16.7 PJ stored for sales customer use. Calgary submitted that to the extent that volumes exclusive to the 16.7 PJ of customer gas were included in the insurance costs, then the \$0.41/GJ should be increased to recover the proportionate share of the insurance costs related to these volumes.

Calgary also submitted that each storage participant should be responsible for its own fuel cost for both injection and withdrawal. Under the RFB proposal set forth by Calgary, each party contracting for the use of storage should be responsible for its injection and withdrawal fuel requirements. Under the use of Calgary's recommended Option 3, customers should be responsible for fuel costs associated with the injection and withdrawal of the 21.7 PJ.

3.3 CG

The Consumer Group¹¹ (CG) submitted that the Application had a very significant omission with respect to what was normally expected in a utility application in that AGS had not actually recommended or applied for approval of any particular course of action. This decision seemed to have been left to the interveners to determine notwithstanding AGS's obligation to operate Carbon. In this regard the CG considered that AGS had abrogated its responsibility, waiting until argument to bring forward a recommendation for operation of Carbon during the 2004/2005 year that would be most beneficial for customers and had, effectively, forced the Board and interveners to make the necessary management choices. The CG submitted that this attempt to shift the onus of proving AGS's application was not appropriate.

The CG submitted that production of some volume of base gas should also be considered as an Option for the 2004/2005 storage-year and submitted an Option 5, the production of base gas, into evidence.

The CG submitted that Option 2 was simply the continuation of the *status quo* (i.e., the 2003/2004 storage plan) with Options 3 and 4 being variations of Option 2 but with all of these options maintaining 16.7 PJ of storage on behalf of utility customers. The CG did not recommend any of these Options proceed without further consideration of Options 1 and 5.

The CG submitted that the availability and utilization of an acceptable tendering process was the preferred methodology for establishing the value of the remaining uncontracted Carbon capacity after provision of 16.7 PJ of storage for utility customers. The CG did not accept the suggestion

¹⁰ Calgary notes the significant engineering resources involved in assessing Carbon alternatives in the proceedings leading up to Decision 2001-110 and 2002-072.

¹¹ The Consumer Group is comprised of Aboriginal Communities, Alberta Irrigation Projects Association, Alberta Urban Municipalities Association, and Public Institutional Consumers of Alberta.

by AGS that it might already be too late to prepare such a document for the 2004/2005 storage year.

The CG expressed considerable interest in pursuing Option 5. The CG noted that AGS had confirmed¹² that the production of 5 billion cubic feet (Bcf), as proposed by AGS in Scenario 1 of the Operating Alternatives Study, was feasible for the 2004/2005 year. The CG did not expect that Option 5 would be standalone in that the CG expected that the production of whatever level of base gas occurred, would be done in conjunction with ongoing storage operations.

The CG submitted that it was not in a position to recommend a specific level of base gas production, but submitted that at least the level of 5 Bcf identified in Scenario 1 would be beneficial to utility customers.

The CG urged the Board to take care that its decision with respect to the 2004/2005 Storage Plan did not in any way compromise longer-term solutions to the Carbon issues. The CG considered that these issues required a more detailed evidentiary base than was available in the present proceeding.

The CG submitted that there should be three elements included in the 2004/2005 Plan¹³. These included an acceptable process for tendering of uncontracted capacity, maintenance of some level of storage capacity for use as physical hedge storage on behalf of utility customers and commencement of production of some portion of base gas as company-owned production.

The CG argued that a minimum 16.7 PJ of the physical storage capacity should continue to be maintained on behalf of utility customers. The CG submitted that the value of this physical hedge storage could not be accurately predicted from year to year since the value was driven by the relative differential between gas prices during the summer injection months as compared to the winter withdrawal months. In some years, there might be a negative differential (i.e., the average value of gas during the winter withdrawal months was lower than the average value of gas during the preceding summer injection months). Over time, the differential would be positive to reflect the explicit value of physical storage providing the additional winter deliverability required to meet seasonal market demands that would otherwise have to be obtained from upstream producers. The CG argued that the existence of the number of commercial storage facilities in operation in Alberta confirmed that there must be a sustainable seasonal price differential available to support the continued economic operation of these facilities.

The CG referred to its examination of the full context the evidence¹⁴ of AGS's witness, Mr. T. J. Simard, in which the use of Carbon as a physical hedge was characterized as a "zero sum game". During cross-examination of Mr. Simard, the CG submitted that it was evident that Mr. Simard was not suggesting that physical storage *per se* does not reduce gas cost. On the other hand, he appeared to suggest that in an efficient storage market, the financial impact would be the same (i.e. the zero sum game) whether utility customers actually use physical storage or duplicate the impact of physical storage through financial hedges.

¹² Refer to response to Information Request CG-AG-7(b)

¹³ CG evidence, p.2-4

¹⁴ Refer to Exhibit 3 in the Transfer of Carbon Storage Facilities Proceeding

The CG did not take issue with the basis¹⁵ used by Calgary to determine that 21.7 PJ of storage was the required amount of physical storage to seasonally balance the market load on the AGS system and expressed no objection to the Board making a finding that this amount of storage should be allocated to utility customers. However, the CG's position on the relative allocation of storage capacity for utility customer use and that allocated to uncontracted capacity was based primarily on a desire for balance between the certainty of revenue obtained from commitment of uncontracted capacity to third-parties and the upside protection from extreme winter seasonal prices provided by the physical hedge storage. Accordingly, the CG stated that it would also be content with a continuation of the *status quo* allocated utility storage level of 16.7 PJ.

The CG noted that production of some level of base or cushion gas in the 2004/2005 winter season would have a similar price protection impact as allocating additional storage capacity for utility customer use.

With regard to the choice between Options 2, 3 or 4 for the methodology to be followed to optimize the use of capacity allocated to utility customers, the CG recommended Option 3 be adopted. The CG disagreed with AGS's contention that the only difference between Option 2 and Option 3 was that Option 2 involved physical transactions whereas Option 3 required financial transactions. The CG did not believe that AGS had correctly interpreted Option 3.

The CG considered that Option 4, which involved the potential carry-over of inventory to a subsequent year, was seen as too problematic, particularly since the present proceeding was for approval of a 2004/2005 storage plan only.

The CG was, in principle, prepared to support Calgary's variation to Option 3, which proposed a 75/25 sharing between customers and AGS of excess revenue achieved above forecast, to provide additional incentive for AGS to optimize the utilization of Carbon.¹⁶

The CG supported Calgary's proposal for tendering the uncontracted capacity, but suggested a change to the procedure with respect to the need for a minimum bid level as part of the methodology for determining acceptable bids. Given that there would be a very limited time frame available between the Board's decision on the Application and the commencement of the 2004/2005 storage season on April 1, 2004 there would be little opportunity for AGS to wait and select favorable market conditions for issuance of the tender documents. The CG was concerned that if the summer winter differential was low at that particular narrow point in time when the tendering process was undertaken, the acceptable value of tenders would be correspondingly low.

Therefore, the CG recommended that a minimum bid level of \$0.41/GJ be established. If the market was weak for storage at that time AGS would be required to deem the value at \$0.41/GJ (being the value previously approved by the Board) for any portion of the un-contracted capacity for which bids above \$0.41/GJ were not received.

The CG admitted that this was an asymmetrical approach and could result in AGS having to set a price for storage above the prevailing market. However, in the particular circumstances for the 2004/2005 storage year, the CG submitted that this was a reasonable approach to ensure that

¹⁵ Energy Objective Evidence, p.4, Q/A.7

¹⁶ Ibid, p.11, Q/A.11

utility customers receive a value for un-contracted capacity above the cost of service. The CG argued that AGS was completely responsible for the limited time frame available through its failure to bring forward recommendations in a timely fashion, and should bear any related consequences.

With respect to production of base gas, the CG was of the view that some level of base gas production should be included as part of the 2004/2005 Storage Plan. However, the CG noted that both the CG and Calgary had pointed out in evidence^{17,18} that the analysis conducted by AGS in evidence and in response to information requests was not sufficient to determine an optimum level of base gas production within the framework of assumptions made by AGS.

Even with exhaustive analysis, the CG argued that there could never be complete assurance that the optimum level could be identified given that no one was able to forecast future gas prices (which was the main variable in any evaluation) with complete certainty. However the CG submitted that there was a clear positive economic advantage for production of 5 Bcf of base gas. The CG argued that the assumption of expansion of working gas capacity by the amount of the base gas production also produced improved positive results for the 10 and 15 Bcf base gas production cases.

The CG believed that under any foreseeable scenario, production of 5 Bcf of base gas was advantageous to utility customers and that there was no need for any more comprehensive cost benefit analyses to establish that point.

The CG argued that while no specific evidentiary record existed, there was very likely some level of base gas production (perhaps 1 or 2 Bcf) that could be achieved while maintaining existing firm contract capacity with no incremental capital investment. Although in agreement with Calgary that more analysis was required to define an optimum level of base gas production, the CG submitted that there was no doubt that a level of 5 Bcf of base gas production should proceed.

The CG also noted that AGS had taken the position that any level of base gas production impaired the economics of the Carbon storage operation¹⁹ since the base gas was carried at zero asset value. However, the CG argued that from the perspective of a utility customer responsible for paying the net revenue requirement of the storage project as a rate base asset, this was a not a realistic evaluation. This was due to the fact that the base gas clearly had a value both as a company-owned production source and as part of the capital infrastructure of the storage project.

The CG recommended that the Board should direct AGS to implement production of 5 Bcf of base gas at the earliest possible date. The CG concluded that increasing the working capacity to 45 Bcf upon production of 5 Bcf of base gas based on present parameters of withdrawal rate relative to working capacity did not appear to be economic.²⁰ However, the CG further recommended that the Board should direct AGS to complete the necessary analysis to determine the optimum level of base gas production and working capacity increase including examination of optimum withdrawal rates.

¹⁷ CG evidence, p.4

¹⁸ Refer to response to Information Request AG-CAL-2(a)(b)(c)

¹⁹ Refer to responses to Information Requests CG-AG-6, CG-AG-7

²⁰ Refer to response to Information Request CG-AG-6 (b)

If it was determined that further analysis was required before the production of base gas, the CG noted that there would be sufficient time preceding the withdrawal, which would likely occur in March 2005, at the end of the withdrawal season.

The CG argued that regardless of the role of AGS with respect to the gas supply function, Carbon continued to be involved in its regulated rate base. The optimum use of Carbon to benefit utility customers remained an obligation of AGS. If production of some level of base gas for sale to the market, in addition to continuing to contract the utilization of Carbon for storage purposes to third parties, produced the highest value from a customer perspective then that was the option that should be pursued.

Finally, the CG noted and supported the argument of the Calgary with respect to storage insurance and cost of fuel issues.

3.4 EnCana

EnCana Gas Storage (EnCana) believed that, given AGS's past history of delay in relation to Carbon storage matters, the Board could not decline to take any action that it found appropriate notwithstanding that there may be insufficient time remaining prior to the start of the 2004/2005 gas storage year. EnCana argued that any fault lay with AGS for submitting a late and incomplete application with respect to its 2004/2005 gas storage plan. EnCana speculated whether or not AGS's real motive was to delay these matters in order to maintain the status quo so that its affiliate, Midstream, could receive gas storage capacity for yet another gas storage year at the rate of \$0.41/GJ. EnCana noted that this rate was based on the 2001 evidence of consultants which the Board viewed as being less than perfect at that time and was a rate clearly not reflective of FMV in today's storage market.

EnCana submitted that Calgary was to be commended for advancing a detailed proposal, which was set out in its direct evidence. EnCana supported Calgary's proposal for managing available storage for the 2004/2005 gas storage year in accordance with Option 1 using the processes detailed by Calgary's consultants, Energy Objective. While the processes proposed by Calgary were not perfect, EnCana Storage submitted that they were the best option available given the limited time until the start of the 2004/2005 gas storage year.

EnCana stated that important elements of Calgary's proposal distinguished it from AGS's RFB process proposed in the Transfer of Carbon Storage Facilities proceeding (Application No. 1237639). Those elements were the provision for multiple smaller blocks of storage capacity being offered and avoidance of any AGS affiliate's "matching right". EnCana argued that the Calgary process would achieve a much more market reflective price for Carbon storage than AGS's previously proposed RFB process or reliance on an out of date storage rate of \$0.41/GJ.

EnCana shared the concerns expressed by the CG²¹ that a minimum bid level of \$0.41/GJ should be established for the 2004/2005 gas storage year. EnCana stated that it knew that \$0.41/GJ was not the current market price, as Midstream would not be offering to take it at that rate. EnCana suggested that an approximate 50% premium to the \$0.41/GJ rate or a minimum bid level of \$0.60/GJ should be established for the 2004/2005 gas storage year to recognize the likely

²¹ Consumer Group Argument at page 7

escalation in value since the \$0.41/GJ rate was chosen in July of 2002 and in light of the late timing for implementation of the RFB process for this gas storage year.

EnCana observed that the proforma gas storage contract proposed by Calgary, involving the Company, as operator of Carbon, with the gas storage customer, had less firm contractual obligations, than the gas storage contracts offered at other gas storage facilities. However, the Board would have to consider whether the less firm style proposed by Calgary might well be most appropriate for a utility operator to offer, especially when the consequences of not effectively managing risks would be subsidized (75%) by AGS's ratepayers.

EnCana submitted that the proposed gas storage contract might attract a lesser value for storage capacity than could be obtained in a purely commercial environment and that such value should not be considered to be an indication of the value which could be obtained in any outright disposition of Carbon by AGS. Accordingly, EnCana requested that the Board, in its decision, clearly indicate that any process was being approved for the 2004/2005 gas storage capacity only and that any such process should not be viewed as necessarily being appropriate for future gas storage years or for any outright disposition of Carbon by AGS.

4 VIEWS OF AGS

AGS reiterated its position from prior proceedings that Carbon was no longer required for utility purposes. In addition, in Argument and in Reply Argument, AGS raised issues with the continuing jurisdiction of the Board in respect of the matters under consideration in the Application.

AGS argued that in light of recent legislation,²² mandating the separation of the gas distribution and supply functions, storage capacity was not required for gas distribution service and that the Default Supply Provider (DSP) or the retailer were responsible for gas supply, not the gas distributor. AGS argued that the gas distributor must not be obliged by the Board to engage in gas purchase, sale, hedging, trading or storage, the costs of which were properly the function of the DSP under the Default Rate Tariff (DRT), or the retailer. In its argument, AGS requested the Board to consider convening a separate process to consider the jurisdictional issues raised by AGS. In its Reply Argument, AGS further argued that the Board lacked the jurisdiction to grant the relief sought by interveners and suggested that the Board should consider mitigating the costs of the Carbon storage business by removing those costs from the gas distribution revenue requirement and removing Carbon from rate base, effective April 1, 2004. Accordingly, it was not necessary for the Board to approve a Carbon 2004-2005 storage plan.

AGS also argued that the notional "utility use" which appeared to be contemplated by interveners was the operation of the Carbon storage business in a manner intended to generate profits to subsidize distribution rates. AGS argued that requiring any gas distributor to institute a gas purchase, hedging, trading and storage arrangement, which generated a profit to subsidize distribution rates, was inappropriate.

²² Sections 3, 4 and 5 of the *Roles, Relationships and Responsibilities Regulation*, AR 186/2003, Section 3 of the *Default Gas Supply Regulation*, AR 184/2003, and Section 28(i) of the *Gas Utilities Act*, R.S.A. 2000, c. G-5

AGS argued that it was one thing for the Board to direct AGS to mitigate the costs of distribution service by contracting out the Carbon storage capacity to non-customers, even though it was unnecessary and not part of the distribution function. It was quite another thing, however, to require it, as a gas distributor, to embark upon a speculative and risky storage, hedging and trading venture such as that proposed by Calgary. AGS argued that Calgary's proposals directly involved it in a host of functions now required to be performed by retailers or the DSP under the new legislation as part of the separate and distinct gas services function.

AGS submitted that the purpose of requiring it to perform these gas services functions was to generate profits in order to subsidize distribution rates. AGS considered that for the Board to direct the use of any particular quantity of storage was arbitrary. AGS also submitted that use of physical storage was not even required for this purpose since the same results could be generated on a grand scale by use of financial instruments alone and without the physical need for Carbon at all. The proposal that it launch a competitive storage business in Alberta's unregulated storage market clearly was directed at profit maximization at significant risk to the Company. AGS argued that, taken to the extreme, AGS could also be required to engage in other competitive businesses not involving distribution customers, for generation of profits to subsidize distribution rates.

AGS argued that, if not required to operate Carbon storage to subsidize distribution customers in 2004/2005, the Company should not be required to buy and sell gas or to engage in storage, hedging or trading activities. The additional risks entailed in the kind of storage, hedging and trading arrangement envisaged by Calgary were simply unacceptable. The costs were not related to the distribution function and may not be included in the distribution tariff.

AGS argued that the central issue in this proceeding was that while storage might be relevant to the gas supply function, it was no longer relevant to the separate and distinct gas distribution function.

With respect to Option 1, AGS argued that Calgary had provided no evidence to support the position that its RFB proposal provided "optimal value" or additional revenue or long-term benefit to distribution customers. No real examples or pricing had been provided to support Calgary's case. AGS argued that the proposal presented by Calgary, that a number of products of variable volumes and terms should be tendered, would be unworkable and unduly complicate the RFB process. AGS had no confidence that an agreement could be reached on how different packages and offerings could be tendered.

AGS considered that, in the event of a direction to carry out an RFB process, the Board would expect the Company to provide wholesale rather than retail storage services.

AGS rejected the reason for Calgary's recommendation for 21.7 PJ as the amount required for "Load Balancing" the system.²³ AGS argued that the notion of establishing the need for storage by comparing the monthly consumption to the gas supply Mean Monthly Volume (MMV) might have had some relevance in gas markets such as Ontario where a large portion of the supply was procured at high load factor annual contracts. However, it was not relevant in the Alberta market where the Board had determined that utility gas supply procurement consists of short-term monthly and daily index contracts. AGS argued that gas storage was not required to supply AGS

²³ Refer to response to Information Request BR-CAL-3

customers given that short-term supply was readily available. AGS stated that monthly and daily supply and demand could be readily matched to the short-term supply without the requirement for any storage service.

AGS submitted that, although an RFB process may be a viable alternative in the future, it was not a practical alternative for the upcoming 2004/2005 storage year. AGS advised that it did not wish, at this time, to proceed with an RFB process, and submitted that the Board should not compel the Company to implement an RFB process against its wishes at this time.

AGS submitted that the Cost of Service value served as a benchmark to compare the current fee charged to Midstream for uncontracted capacity. AGS argued that one could conclude that distribution customers are benefiting from the uncontracted capacity, by comparing the current fee of \$0.41/GJ to the cost of service benchmark of \$0.27/GJ.

AGS argued that the interveners had failed to provide conclusive evidence that the current fee should be anything different. AGS submitted that, due to practical limitations, it was appropriate that the entire 43.5 PJ, less existing contractual commitments, continue to be contracted to Midstream at the approved rate of \$0.41/GJ.

AGS submitted that, in the event of a Board determination that the Company should be required to conduct a storage, hedging and trading arrangement to provide a potential additional subsidy to distribution rates, this portion of the plan should be operated in accordance with the plan filed as Option 2 in the Application.

AGS submitted that it had explored the variants of the plan described as Option 3 and Option 4 and had concluded that neither should be recommended for Board approval. If directed to engage in such non-distribution related activities, AGS preferred the use of physical hedges rather than financial hedges.

AGS argued that it had responded in a complete and considered manner to the issues before the Board, outlining a variety of Options available to accomplish the purposes of the Board and interveners. Accordingly, the sanctions suggested in the intervener submissions should be disregarded.

AGS argued that the question of whether or not it should be required to engage in the buying and selling of gas, hedging and other trading-like activities was a critical issue related to the 2004/2005 Storage Plan. AGS submitted that these functions were inconsistent with the role of a gas distributor as set out in the applicable legislation. Aside from the jurisdictional issues discussed above, this core concern led AGS to conclude that only those Options dealing with a potential contracting out of the entire Carbon storage capacity to third parties were appropriate.

With respect to Calgary's benefit sharing proposal, AGS believed that Calgary's bid based active management storage proposal was a step in the wrong direction, especially given the Alberta government policy direction pertaining to gas industry restructuring and deregulation. AGS argued that it was time to recognize the fully competitive nature of the gas storage business in Alberta, and that Calgary had put forward a complex proposal that would significantly increase the regulatory burden on the Carbon storage business, on the Board and on AGS beyond even that which existed.

AGS confirmed that insurance coverage for working gas in Carbon was based on the maximal probable loss for the entire facility, that is, on an estimate of the amount of gas which might escape due to accident or equipment failure. The present level of insurance coverage was \$15 million per occurrence.

AGS confirmed that all compressor fuel costs for Carbon were expensed to the account of AGS. As such, the compressor fuel costs formed part of the cost of service of the entire Carbon facility. In other words, those costs were part of the \$0.27/GJ cost of service. AGS argued that customers were compensated for compressor fuel use by third parties through the \$0.41/GJ fee approved by the Board.

AGS submitted that FMV rates for storage services in Alberta did not contain a separate component for compressor fuel or insurance. Compressor fuel and insurance were input costs that must be recovered by commercial storage operators in the rates that they negotiate with their customers. Under the AGS/ATCO Midstream Uncontracted Capacity Agreement, AGS had first call on Carbon capability to meet its requirements, and the remainder of the capability, if any, was made available as uncontracted capacity. Put differently, AGS customers had a higher level of priority service over the uncontracted portion. It would be arbitrary, therefore, to attempt an allocation of fuel or insurance costs based upon the different levels of service.

AGS argued that it was neither fair nor practical to specifically track fuel or insurance expenses for contracted and third party use, as suggested by Calgary. AGS urged the Board to reject this suggestion.

AGS argued that the cost structure of the Carbon storage business reflected the Company's ability to operate an efficient business, taking advantage of its strengths and managing its weaknesses. AGS noted that since the early 1990's, EnCana had also operated a storage business in the same marketplace. EnCana managed the strengths and weaknesses of its underlying cost structure. AGS argued that EnCana's motivation was a desire to damage one of its competitors by abusing the regulatory process. Should EnCana agree to open its books to public scrutiny, then its position in this proceeding might be reasonable. Otherwise, AGS argued, the Board must disregard EnCana's views.

AGS argued that the participation by BP and EnCana in the proceeding should be recognized for what it was, a platform upon which to advance their own commercial interests as competitive storage operators. Their recommendations should be disregarded.

With respect to Operating Alternatives Study, AGS argued that a gas distributor should not be required to impair the commercial viability of the non-distribution assets or undertakings it may own in order to subsidize distribution rates. AGS noted its statements "...AGS is concerned that the effect of any base gas removal is to increasingly impair the competitiveness of the Carbon storage facility through higher owning and operating costs without the ability to increase revenues through a commensurate increase in working capacity"²⁴ and "...It is clear that all three scenarios will increase the capital and operating costs of the Carbon storage business, impairing its competitiveness without increasing its ability to generate offsetting revenues through an increase in working capacity. ATCO Gas is not prepared to proceed on this basis"²⁵.

²⁴ Refer to response to Information Request BR-AG-15(5)

²⁵ Refer to response to Information Request CG-AG-4(a)

5 BOARD FINDINGS

In this section the Board will separately deal with the preliminary issue of jurisdiction and with the 2004/2005 storage plan, the COSS and the Operating Alternatives Study.

5.1 Jurisdiction

As a preliminary matter, the Board finds it necessary to address certain jurisdictional comments of AGS. In its Argument and Reply Argument, AGS raised several jurisdictional concerns with respect to Carbon and the ability of the Board to grant the relief requested by the interveners. The AGS Reply Argument went so far as to request the Board to consider mitigating the costs of the Carbon storage business by eliminating those costs from the gas distribution revenue requirement and by removing Carbon from rate base effective April 1, 2004. The Board notes however, that the Application itself did not raise a jurisdictional objection nor take issue with Carbon remaining in rate base. The Board finds that the appropriate place for the AGS to have raised an objection to the jurisdiction of the Board or to request removal of the Carbon assets from rate base, would have been in the Application, itself. In that manner, interveners would have been able to submit information requests in an effort to gain a better understanding of the applicant's position and would have had the opportunity to file evidence in respect of the various jurisdictional concerns raised by AGS. Given the several acrimonious proceedings in which Carbon has figured prominently, the Board is especially concerned that all parties have an opportunity to fully explore any assertion that the Board lacks jurisdiction over the utilization of Carbon and any suggestion that Carbon be removed from rate base.

For the above reasons, the Board has declined at this time to fully consider the arguments raised by AGS in its Argument and Reply Argument with respect to the jurisdiction of the Board and its request to have Carbon removed from rate base. The Board has previously stated in Decision 2002-072 that the Carbon rate base assets can and are to be used for the benefit of customers until such time as AGS presents and receives approval of an application as required by that Decision. .

5.2 2004/2005 Storage Plan Options

The Board notes that Calgary introduced the concept of revenue sharing on the basis of 75% to customers and 25% to the company. This concept was supported by the CG, however AGS's view was that the proposal was going in the "wrong direction". The Board further notes that Calgary withdrew its proposal citing that, given AGS's rejection of the idea, it was not worth pursuing an incentive arrangement. Accordingly, without the support of either the Company or the interveners, the Board has not considered the proposed revenue sharing scheme in this Decision.

Option 1

This Option is the preferred choice of the interveners and although the time to conduct an RFB is short, most interveners, except BP, believed it was possible to complete the process before the start of the storage season. The interveners supported using the process proposed by Calgary, although the CG recommended a minimum bid of \$0.41/GJ should be used, given that the optimal time to seek the most favourable bids may have been compromised by a late start to the process. The proposal by Calgary had eliminated most features included by AGS in its

submission in the proceeding for the Determination of the Fair Market Value of Uncontracted Carbon Storage²⁶ (Application No. 1286912) that were disagreeable to interveners. AGS had initially submitted Option 1 as a viable option on the basis that it was the same as it had presented in that proceeding. However, AGS in its Reply Argument indicated that it did not want to proceed with an RFB process.

The amount of storage to be included in a RFB process ranged from all of it (43.5 PJ less existing contracts) to all of it less the status quo amount of 16.7 PJ to be held for utility use. The former was premised on the basis that the sale of the gas supply retail business to Direct Energy²⁷ was closed.

While the Board is satisfied that Calgary has proffered a reasonable and realistic package to conduct an RFB process to determine the FMV for the uncontracted storage, the Board is concerned that the time frame remaining in which to conduct such a process is no longer sufficient, nor likely to result in an optimal result. Consequently, the Board does not approve proceeding with Option 1, an RFB process.

Option 2 and Option 3

Option 2, as proposed by AGS in the Application, was essentially continuing with the status quo, retaining 16.7 PJ of storage for utility use and permitting Midstream to utilize the balance. All aspects would be the same as used for the 2003/2004 storage season. However, the Board notes that AGS ultimately argued that the 43.5 PJ of capacity at Carbon, less existing contractual commitments, should be contracted to Midstream at the approved rate of \$0.41/GJ on the basis that it, as gas distributor, should not be required to engage in the buying and selling of gas, hedging and other trading-like activities.

The Board notes the CG's position on the allocation of 16.7 PJ of storage capacity for utility customer use was based primarily on a desire for balance between the certainty of revenue obtained from the commitment of uncontracted capacity to third parties and the upside protection from extreme winter seasonal prices provided by the physical hedge storage.

The Board notes Calgary's recommendation for an increase from 16.7 PJ to 21.7 PJ to be retained for utility use. Although the Board considered that the rationale is sound for retaining some portion of storage for utility use, the Board is not convinced that a quantity above the 16.7 PJ is warranted. The Board also notes Calgary's preference that the latter amount should be used in conjunction with Option 3, although it considered Option 2 to be a fallback option in the event Option 3 was found to be unjustifiable.

Option 3 is a variation on Option 2 whereby the hedging, as proposed by Calgary, is used to reduce risk exposure by locking in the value of optionality. The CG supported Option 3, but AGS did not consider that the benefits were worthwhile and that Option 2 was preferable.

Upon review of the positions the Board concludes that, while Option 3 appears to have some merit, there also appear to be some doubts by AGS that there would be an increase in benefits. In such circumstances the Board will approve the method as outlined by AGS as Option 2 for the 2004/2005 storage plan, i.e. the same plan as used for the 2003/2004 storage season.

²⁶ Refer to Decision 2003-021, dated March 11, 2003.

²⁷ Refer to Decision 2003-098, dated December 4, 2003

Specifically, AGS shall implement a storage plan for the 2004/2005 storage season on the following basis:

- (a) Storage capacity of 16.7 PJ shall be reserved for utility use for the 2004/2005 storage year
- (b) The gas procurement and injection strategy used in the summer of 2003 shall be applied in the summer of 2004.
- (c) The gas withdrawal plan for winter 2004/2005 shall be similar to the approved 2003/2004 withdrawal plan.
- (d) The risk mitigation strategies approved for the 2003/2004 storage year shall be applied in the 2004/2005 storage year.

Storage capacity of 16.7 PJ shall be retained by AGS and managed by AGS in the same manner as was done in the 2003/2004 storage plan. Midstream shall be permitted to utilize the balance, less previously contracted amounts.

With respect the storage rate used for the uncontracted volume, the Board notes the CG's point that the existence of the number of commercial storage facilities in operation in Alberta confirmed that there must be a sustainable seasonal price differential available to support the continued economic operation of these facilities. The Board also notes EnCana's submission that the storage rate of \$0.41/GJ was out of date and not the current market price, as Midstream would not otherwise be offering to take it at that rate. The Board notes EnCana's suggestion that an approximate 50% premium to the \$0.41/GJ rate or a minimum bid level of \$0.60/GJ should be established for the 2004/2005 gas storage year to recognize the likely escalation in value since the \$0.41/GJ rate was chosen in July of 2002. EnCana, however, did not substantiate nor provide support for its recommendation. The Board nevertheless considers that the market for storage is strong and that a properly conducted, timely RFB would demonstrate such. The Board is persuaded that the storage rate of \$0.41/GJ is currently too low. Accordingly, in the absence of an RFB the Board agrees that an increase to at least take into account the rate of inflation is appropriate. Since the current rate of \$0.41/GJ was initially applicable to the year 2001, inflation calculated over three years²⁸ to 2004 would produce an increase of \$0.04/GJ. Therefore the Board approves a rate of \$0.45/GJ, to be used in conjunction with Option 2.

Accordingly, when submitting the final Compliance Filing for the ATCO Gas 2003/2004 General Rate Application, AGS is directed to adjust the 2004 amount for Carbon storage revenue from Midstream, to reflect the rate of \$0.45/GJ.

Option 4

Option 4 included a consideration for carrying-over some inventory if gas prices were favourable to do so. The Board notes that there was no support for a carry-over of inventory, at least at this time, and especially as it pertains to the 2004/2005 storage season except as part of an RFB

²⁸ CPI for 2002 and 2003 was 3.4% and 4.4% respectively (Reference: Statistics Canada, CANSIM Table 326-0002); AGS has forecasted inflation for 2004 in its Phase I General Rate Application at 2.2% (Reference: Decision 2003-072, dated October 1, 2003, p. 165).
The new rate is calculated as follows: $(0.41 \times 1.034 \times 1.044 \times 1.022 = 0.45)$.

process where the matter could be left for negotiation between the successful bidder and AGS. Accordingly, the Board will not require any further action with respect to this Option in relation to the 2004/2005 storage plan.

5.3 COSS

The COSS submitted by AGS did not completely comply with the Board's direction, as it did not provide any information about how costs are related to capacity and/or deliverability. The Board also recognizes that the information provided from the 2002 COSS had not been tested in a hearing. Notwithstanding the foregoing comments, the Board accepts that the determination of \$0.27/GJ is accurate enough and of an order of magnitude to demonstrate that the customers will be kept whole and benefit from the current rate for the uncontracted capacity during the 2004/2005 storage season.

5.4 Operating Alternatives Study

The Board notes that the study submitted by AGS did demonstrate that base gas could be produced, using various combinations of improvements or operational changes, and would produce a benefit to customers when compared to the purchase of similar volumes of natural gas. Some scenarios provided a negative result. The Board also accepts AGS's point that the cost of gas at the time could influence the magnitude of the benefit and its positive or negative benefit. The Board is satisfied that the study and responses to information requests has accomplished the original intent to provide greater insight into the complexities and possibilities related to the production of base gas.

The Board acknowledges the CG's proposal, which it referred to as Option 5 and involved the production of a quantity of base gas over and above the working gas, which would be cycled in Options 1, 2 or 3.

The Board notes that several scenarios appear potentially possible that would enable the production of base gas in an efficient manner, which would benefit the customers and provide AGS with an opportunity to invest in rate base without impacting the viability of the storage operations. The Board also notes that the CG submitted that a small quantity of base gas, 2 Bcf (approximately 2 PJ), could be produced during the 2004/2005 storage year without the need for capital expenditures and that AGS has sufficient time to include it in its withdrawal plans since it would likely be withdrawn in 2005. However, the Board is not convinced, based on the evidence before it, that a thorough analysis has been completed of the costs/benefits of producing various amounts of base gas, including a review of the impacts to working capital, capital expenditures, gas price forecasts, and impacts to the storage operation. Accordingly, the Board is not persuaded that production of the base gas is warranted at this time.

5.5 Other Matters

The Board acknowledges the contention of Calgary, with support by the CG, that both compressor fuel and insurance should not be included in the rate charged for the uncontracted quantity.

In respect of the insurance the Board is inclined to agree with AGS that insurance is a cost for the owner. The owner has responsibility to ensure the facilities are in good working order and to ensure safe practices are followed. The Board also notes that the amount insured is for \$15

million, which is a reasonable amount and for which the premium, \$175,000 in 2002, is not onerous.

With respect to the compressor fuel the Board notes that under the AGS/ATCO Midstream Uncontracted Capacity Agreement, AGS has first call on Carbon capability, to meet its requirements, and the remainder of the capability, if any, is made available to Midstream. Although the Board believes that it would be reasonable to transfer a portion of the compressor fuel costs and similar costs, where AGS is not in full control of the them, to the operator, the Board agrees with AGS not to alter the treatment of the compressor fuel at this time.

Unless otherwise approved by the Board, AGS is directed to file an application for the 2005/2006 storage season no later than August 1, 2004, with sufficient information and rationale to support AGS's position.

6 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.

1. Accordingly, when submitting the final Compliance Filing for the ATCO Gas 2003/2004 General Rate Application, AGS is directed to adjust the 2004 amount for Carbon storage revenue from Midstream, to reflect the rate of \$0.45/GJ..... 20
2. Unless otherwise approved by the Board, AGS is directed to file an application for the 2005/2006 storage season no later than August 1, 2004, with sufficient information and rationale to support AGS's position..... 22

7 ORDER

IT IS HEREBY ORDERED THAT:

- (1) The storage plan for ATCO Gas South for the Carbon storage facility for the 2004/2005 storage year shall follow the plan last approved in Decision 2003-021. Specifically, the following shall continue to apply:
 - (a) Storage capacity of 16.7 PJ shall be reserved for utility use for the 2004/2005 storage year.
 - (b) The gas procurement and injection strategy used in the summer of 2003 shall be applied in the summer of 2004.
 - (c) The gas withdrawal plan for winter 2003/2004 shall be applied in the winter of 2004/2005.
 - (d) The risk mitigation strategies approved for the 2003/2004 storage year shall be applied in the 2004/2005 storage year.

- (2) By March 31, 2004, ATCO Gas South shall file, for acknowledgement by the Board, an outline of the 2004/2005 storage plan in conformity with this Decision.
- (3) By October 29, 2004, ATCO Gas South shall file, for acknowledgement by the Board, an outline of the 2004/2005 withdrawal plan.
- (4) ATCO Gas South shall reflect revenues from ATCO Midstream Ltd. for uncontracted capacity at the Carbon storage facility for the 2004/2005 storage year based on a fee of \$0.45/GJ until such time that ATCO Gas South demonstrates to the Board's satisfaction that a different rate would be in order, or unless the rate is otherwise changed by the Board.
- (5) Unless otherwise approved by the Board, ATCO Gas South is to make its storage application for the 2005/2006 storage year by August 1, 2004.

Dated in Calgary, Alberta on March 9, 2004.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

M. J. Bruni, Q.C.
Acting Member

(original signed by)

C. Dahl Rees
Acting Member