Decision **2004-036**

ATCO Gas

2003/2004 General Rate Application Compliance Filing

April 28, 2004

Alberta Energy and Utilities Board

ALBERTA ENERGY AND UTILITIES BOARD
Decision 2004-036: ATCO Gas
2003/2004 General Rate Application Compliance Filing
Application No. 1323828

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1 INTRODUCTION

On October 1, 2003, the Alberta Energy and Utilities Board (the Board) issued Decision 2003-072 regarding the 2003/2004 Phase I General Rate Application (GRA) of ATCO Gas (ATCO or the Company). In Decision 2003-072, the Board directed ATCO to re-file its 2003/2004 GRA to incorporate the Board's findings in that Decision and provide all of the supporting schedules necessary for the Board to make its final determination regarding the 2003/2004 revenue requirement.

On December 8, 2003, ATCO re-filed its 2003/2004 GRA (the Compliance Filing), reflecting the revisions to the Company's rate base and revenue requirement required to comply with the Board's directions in Decision 2003-072. By letter dated December 10, 2003, the Board requested that interested parties review the Compliance Filing, and submit any comments to the Board no later than January 15, 2004. In the letter, the Board requested that ATCO respond to the comments of interested parties by February 2, 2004. On January 14, 2004, in response to a request from the City of Calgary, the Board extended the deadline for submissions by interested parties to January 19, 2004 and to February 6, 2004 for reply by ATCO. On February 5, 2004, in response to a request, the Board extended the deadline for reply submission by ATCO to February 11, 2004.

On January 19, 2004, submissions on the Compliance Filing were received from the Alberta Urban Municipalities Association and the City of Edmonton (AUMA/EDM), the City of Calgary (Calgary), and the Consumer Group (CG). On January 19, 2004, the Board also filed a request with ATCO for clarification of certain matters in the Compliance Filing. On February 11, 2004, ATCO filed its response to comments of interveners and the Board.

The Board considers that the record for this proceeding closed on February 11, 2004.

2 COMPLIANCE WITH BOARD DIRECTIONS

2.1 General Comments

Views of the Applicant

In the Compliance Filing, ATCO responded to each Board direction that pertained to the Company's 2003 and 2004 GRA amounts and revenue requirement for those years. ATCO provided a summary of each direction, an explanation of the Company's response, and the related impact on the GRA amounts and revenue requirement.

Views of Interested Parties

While indicating general satisfaction with the adjustments made by ATCO to comply with the directions in Decision 2003-072, interested parties took issue with ATCO's response to certain directions in the Decision. For these specific directions, parties submitted that, prior to acceptance of the related adjustments, there was a need for further clarification of ATCO's response and/or recalculation of the adjustments.

Views of the Board

The Board agrees with interested parties that ATCO has generally complied with the directions in Decision 2003-072 and will address, in Section 2.2 below, only those directions where interested parties took issue in submissions filed on January 19, 2004. Section 2.2 provides direction to ATCO for additional adjustments to the revenue requirement arising from review of the Compliance Filing. The Board expects that ATCO will address these directions in the next compliance filing (the Second Compliance Filing) to be submitted 21 days after issue of this Decision, as further discussed in Section 3. With respect to individual Directions not addressed specifically in Section 2.2, the Board is satisfied with the adjustments proposed in ATCO's response, while recognizing the need for further adjustments to placeholder amounts once those amounts have been determined.

2.2 Issues raised by Interested Parties

2.2.1 Direction 1 (Separation of North/South)

In Decision 2003-072, the Board directed ATCO to file separate revenue requirements for North and South.

Views of the Applicant

In the Compliance Filing, ATCO presented a separate revenue requirement for each of the North and South, and included certain additional costs to properly compensate the Company for the increased costs associated with continued segregation. Specifically, ATCO increased the forecast for audit fees by $12,000 in each test year, and the forecast of administrative costs by $100,000 in 2004 related to additional staff considered necessary to conduct Phase II matters separately for North and South. ATCO submitted that the Board had indicated its approval for an increase in costs, as evidenced by the following statement in Decision 2003-072:

> The Board considers that it is ATCO's responsibility to determine the additional processes and procedures necessary for preparation of separate revenue requirements, recognizing that customers have expressed the willingness to bear the appropriate related costs.

ATCO pointed out that, while the Board addressed the majority of these cost increases in its Decision, the costs of auditing the financial statements and preparing separate Cost of Service studies were not addressed.

ATCO considered it prudent and reasonable to include audit fees related to the separate North and South financial statements in light of the Board's Direction.

In response to comments from Calgary, ATCO stated that the requirement to develop separate cost of service studies for each of the North and South going forward was clearly a change in circumstances from the previous five years. ATCO also considered it appropriate to also allocate the increase in cost equally between North and South.

ATCO also pointed out that comments made in Exhibit 14-10(b) with respect to reductions in costs were made with respect to development of separate North/South revenue requirement forecasts, and not in relation to the cost of preparing separate cost of service studies.

ATCO considered that the CG's comment on the timing of hiring an additional FTE, directly undermined the concept of prospectivity and was irrelevant to the matter before the Board. ATCO stated that the timing of the Compliance Filing should not impact the approval of any amount in the GRA forecast.

Views of the Interested Parties

AUMA/EDM

AUMA/EDM indicated that, contrary to ATCO's assertion, a review of Decision 2003-072 did not reveal any endorsement by the Board for recognition of the additional costs associated with continued segregation included in the test year forecasts. Accordingly, AUMA/EDM submitted that the increased costs should be denied.

CG

The CG pointed out that its disagreement with incorporation of $100,000 in additional costs associated with continued segregation of revenue requirements, had already been expressed during the GRA proceeding. The CG considered then that the merits of the amount were unsubstantiated, and noted that the Board chose not to include this additional amount in its Decision.

The CG noted that the amount of $100,000 equates to one additional full-time FTE, and that given the time required for review and approval of the Compliance Filing, any new position would probably not be in place before mid-year. The CG submitted therefore that this would suggest a maximum of $50,000, assuming that there was a need for an increment to the revenue requirement.

Calgary

Calgary noted that ATCO had arbitrarily added additional amounts, originally referred to in Exhibit 14-10(b), associated with continued segregation of the revenue requirements, and that contrary to ATCO's assertion, the Board did not recognize these amounts in Decision 2003-072. Calgary submitted that ATCO had been keeping standalone books for the North and South since January 1, 1999, and that these artificial costs, which have not been approved by the Board, should be deleted from the revenue requirement.

Calgary pointed out that ATCO had been conducting Phase II proceedings since 1999 and should not require any additional staff to prepare its Phase II filings. Calgary submitted that, should the Board elect to approve these additional costs, they should be allocated entirely to the North.

Calgary also pointed out that an audit had been completed every year since 1999 on a North/South basis, and that there was no justification for the increased fee regardless of the allocation used.

Calgary considered the $100,000 amount particularly suspect given the following comment by ATCO in Exhibit 14-10(b):

> While ATCO Gas may not be able to reduce its current establishment because the work is spread over many positions, it [combination of North/South] will enhance the ability of ATCO Gas to manage the impacts of growth and change in the future without increasing costs as much as we otherwise would have. [Brackets added]

Calgary interpreted this comment to mean that there was no reduction in this cost as a result of the combination of North and South and that there should therefore be no increase for keeping the two separate.

Board Findings

As indicated by ATCO, in Decision 2003-072, the Board recognized the need for the Company to identify the costs of any additional processes and procedures necessary for preparation of separate revenue requirements. The Board acknowledges ATCO's observation that, while the majority of such cost increases were addressed in the Decision, other costs, such as those associated with auditing separate North/South financial statements and preparation of separate Cost of Service studies were not specifically addressed. The Board accepts ATCO's position that the requirement to develop separate Cost of Service studies for North and South going forward represents a change in circumstances from the previous five years, given the impact of the North Core Agreement on the regulatory burden for the North during that time.

The Board notes that in Exhibit 14-10(b), ATCO indicated that staff complement totals had been kept to levels appropriate "once North/South segregation is no longer required", and maintained at levels appropriate for one utility, not two. The Board acknowledges ATCO's position that the Company had already avoided $100,000 in costs as a result of not preparing separate depreciation and lead/lag studies and that the GRA forecast did not include any costs related to conducting Phase II matters separately for North/South. The Board is prepared to accept ATCO's submission that an additional $100,000 in administrative costs is necessary to recognize the increase in staff complement required to conduct Phase II matters separately for North and South. The Board agrees with ATCO that the timing of a final determination on the Compliance Filing should not affect the amount of the additional forecast costs, and that the amount should be allocated equally between North and South.

The Board notes that the additional cost associated with the need for audits of separate North/South financial statements was referred to by ATCO in Exhibit 14-10(b), and considers that the amount of $12,000 proposed by ATCO in relation to this requirement is reasonable.

2.2.2 Direction 4 (Sale of Beaverhill Lake/Ft. Saskatchewan Properties)

In Direction 4 of Decision 2003-072, the Board directed ATCO to reduce test year forecast expenditures to fully reflect the sale of the Beaverhill Lake and Fort Saskatchewan properties.

Views of the Applicant

ATCO took the position that the Compliance Filing reflected the impact of the sale of the Beaverhill Lake and Fort Saskatchewan properties in the manner described in the response to BR-AG-149. The Compliance Filing also reflected the refund of deferred taxes provided to

North Core customers pursuant to the North Core negotiated settlement agreement, in the manner described in the response to CG-AG-127.

ATCO pointed out that the response to BR-AG-149 provided an estimate of the significant changes related to the sale, and did not include certain adjustments such as GST working capital, and that the weighted average cost of capital and utility income amounts referenced by AUMA/EDM included the effect of income tax. In this respect, they are not properly comparable to the adjustments for those components reflected on Schedule 4.1-1 of the Compliance Filing.

ATCO failed to understand Calgary's concern that the level of reduction to I-Tek charges as a result of the sale was too high, pointing out that ATCO simply removed the I-Tek charges related to the North production group from the test year forecasts. ATCO also indicated that the change on Schedule 3.1-5 of the Compliance Filing related to the difference in income tax rates as a result of the sale, and that the adjustments to the deferred income tax balances on Schedule 7.4-2 were consistent with the adjustments on Schedule 4.10-1. ATCO noted that further support for the calculation of these amounts was provided on Schedule 4.10-3.

Views of Interested Parties

AUMA/EDM

AUMA/EDM noted ATCO's comment that the adjustments made to reflect the impact of the Beaverhill Lake/Fort Saskatchewan properties were based on the information in the Attachment to BR-AG-149. AUMA/EDM noted that ATCO reduced mid-year rate base by $10.944 million (2003) and $9.621 million (2004). AUMA/EDM indicated that the only evidence on the record regarding this issue was contained in BR-AG-149, which indicated that rate base should have been reduced by $10.516 million (2003) and $10.245 million (2004). AUMA/EDM also noted that ATCO reduced the weighted average cost of capital from 11.84% to 6.579% in 2003 and from 11.78% to 9.386% in 2004.

AUMA/EDM considered that adjustments related to the sale of these producing properties should be based on the amounts and rates of return reflected in BR-AG-149, which formed the basis for approval of the sale of those properties. Accordingly, noting that ATCO reduced utility income by $720,000 (2003) and $903,000 (2004), AUMA/EDM submitted that utility income should be reduced by $1.245 million (2003) and $1.207 million (2004) instead, to reflect the sale of these properties.

Calgary

Calgary expressed concern that no details were provided to support adjustments made to remove costs related to the sale of producing properties and that, in fact, some cost adjustments did not appear reasonable. By way of example, Calgary pointed out that the adjustments result in a $220,000 change with respect to I-Tek, which is surprisingly high considering that the change in costs related to bi-monthly versus monthly meter reading results in adjustments to I-Tek costs of only $17,000 (2003) and $41,000 (2004). Calgary referred to other less material adjustments, which were not obvious. These included the change in non-utility revenue (net of expenses) shown on Schedule 3.1-5 (line 12), and adjustments for deferred income taxes shown on Schedule 7.4-2 (line 14), that did not appear consistent with the adjustments on schedule 4.10-1 (line 48).

Board Findings

The Board notes the concerns raised by AUMA/EDM and Calgary with respect to differences between the adjustments proposed in response to Direction 4 of Decision 2003-072, and adjustments filed by ATCO in response to other Board directions and in response to BR-AG-149. Having examined the Company's explanation of the differences identified, the Board is satisfied that the adjustments proposed by ATCO to reflect the impact of the sale of the Beaverhill Lake and Fort Saskatchewan properties appear reasonable. In particular, the Board accepts ATCO's position that the adjustments are not properly comparable to those reflected in the response to BR-AG-149, given the different treatment of certain items such as GST working capital and income tax, noting that the overall difference is only $20,000. The Board is also satisfied that ATCO has been able to demonstrate that the adjustments are consistent with related adjustments proposed elsewhere in the Compliance Filing.

2.2.3 Direction 13 (Urban/Rural Main Extensions and Services)

In Direction 13, the Board directed ATCO to reduce forecast expenditure for Urban Main Extensions and Rural Main Extensions and Services by 3.5% in each test year.

Views of the Applicant

ATCO reduced capital expenditure forecasts for Urban Main Extensions and Rural Main Extensions and Services by $662,000 (2003) and $617,000 (2004), and indicated that, as a result of the reduction to expenditures, an adjustment to the contribution test year forecasts was also required. Accordingly, ATCO reduced the contribution forecasts by $150,000 (2003) and $130,000 (2004).

ATCO explained that contributions for Rural Main Extensions and Services are forecast on the basis of historical customer contribution levels, forecast activity for new customer sign-ups, and estimated levels of government grants available for regular service extensions and special projects and looping and upgrading projects. ATCO stated that government grant formulas are based on the average cost to serve customers, and that a reduction in forecast construction costs, as directed by the Board, results in a reduction in the forecast average costs associated with providing service to new customers resulting directly in a reduction of government grants.

In its reply submission, ATCO provided a table setting out revised forecast amounts to recognize errors, including use of an incorrect percentage, in the calculation of the forecasts and related North/South allocation in the Compliance Filing. However, given the insignificance of the adjustment, ATCO proposed to correct this error in the Second Compliance Filing.

ATCO stated that the CG's suggestion to adjust urban service lines is incorrect, in that Residential Service Lines are included in the category of Distribution Services, which is dealt with in Direction 19.

Views of Interested Parties

CG

The CG expressed concern that urban services were not reduced by the 3.5% as directed by the Board in Board Direction 13. The CG considered that urban services should also be reduced by 3.5%.

The CG considered it inappropriate to reduce contributions, as such a reduction was not provided for in the Direction of the Board. In the CG's view, it is inappropriate for ATCO to make further changes to the original application in response to a compliance filing. The CG also noted that ATCO reduced contributions by 5% from forecast.

Calgary

Calgary presented tables highlighting inconsistencies in ATCO's response to Direction 13, and expressed concern with the absence of related explanations. Calgary pointed out that, while the adjustment for Urban Main Extensions was prorated between North and South based upon the forecast, the adjustment for Rural Main Extensions and Services was not allocated between North and South in proportion to the forecast. Calgary also noted that the reduction in contributions was not based on the 3.5% directed by the Board.

Board Findings

The Board disagrees with the CG that urban services should have been reduced by 3.5%, acknowledging ATCO's position that the forecast for this category of expenditure is incorporated with the forecast for Residential Service Lines, which is addressed in the context of Direction 19. Having reviewed ATCO's explanation of the relationship between contribution levels and levels of capital expenditure forecasts, the Board is prepared to accept ATCO's position that a reduction to contribution forecasts is also required. The Board notes ATCO's proposal to correct the error in the calculation of the reduction due to use of an incorrect contribution forecast and percentage in the Second Compliance Filing.

The Board accepts the adjustment proposed by ATCO in response to this Direction, subject to correction of the error in the reduction to the contribution forecast.

Accordingly, the Board directs ATCO to rectify the adjustment to the contributions for Rural Main Extensions and Services in the Second Compliance Filing.

2.2.4 Direction 15 (Urban Mains Replacements)

In Decision 2003-072, the Board directed ATCO to reduce the 2004 test year forecast for Urban Mains Replacements to $7.092 million.

Views of the Applicant

ATCO reduced the 2004 forecast for Urban Mains Replacements by $7.991 million, thereby reducing the forecast to $7.092 million, as directed by the Board.

As pointed out by Calgary however, ATCO noted that the Urban Mains Replacement adjustment between North and South was not split proportionately, but given the insignificance of the adjustment, proposed to correct this error in the Second Compliance Filing.

Views of Interested Parties

CG

The CG considered it appropriate that ATCO provide an explanation of the reason why forecast 2004 capital expenditure was reduced by $7.991 million as opposed to the $7.092 million directed by the Board in Direction 13.

Calgary

Noting that ATCO had reflected an adjustment of $7,991,000 to the forecast for Urban Mains Replacements, which is $899,000 more than directed by the Board, Calgary submitted that ATCO should provide a complete explanation of how the amount was determined and allocated between North and South.

Board Findings

Noting the concerns of interested parties with respect to the adjustment proposed in response to Direction 15, the Board is satisfied that ATCO has reflected the adjustment correctly in the amount of $7.991 million. The Board notes ATCO's commitment to correct the allocation of the reduction to North and South in the Second Compliance Filing.

The Board accepts the adjustment proposed by ATCO in response to this Direction, subject to correction of the error in the allocation of the adjustment.

Accordingly, the Board directs ATCO to rectify the North/South allocation of the reduction to Urban Mains Replacements in the Second Compliance Filing.

2.2.5 Direction 19 (Residential Service Lines)

Direction 19 required that ATCO reduce test year forecasts for residential service lines in Red Deer by $190,000 (2003) and $207,000 (2004).

Views of the Applicant

ATCO reduced forecast capital expenditures in the North by the amounts as directed, and indicated that, as a result of the reduction to expenditures, an adjustment to the contribution test year forecasts was also required. Accordingly, ATCO reduced the contribution forecasts for Red Deer residential service lines by $102,000 (2003) and $130,000 (2004).

In response to questions from the Board and interested parties, ATCO explained the relationship between capital construction cost and contribution forecasts, to support the position that a reduction in forecast capital construction costs results in a corresponding reduction in forecast contributions for that category of expenditure.

Views of Interested Parties

CG

In the CG's view, a compliance filing should only be used to reflect Board directions and not to make adjustments to Board directions. The CG therefore considered it inappropriate for ATCO to revise the contribution levels for Red Deer residential service lines.

Board Findings

Having reviewed ATCO's explanation of the relationship between contribution levels and levels of capital expenditure forecasts, the Board is not prepared to accept ATCO's position that a reduction to contribution forecasts is also required in response to this Direction. Although the Board directed ATCO to reduce the forecast installation cost per unit, this did not result in a change to the service line rates, as set out in Schedule B of the ATCO Gas Terms and Conditions for Distribution Service Connections, which determine the level of contribution collected from service applicants. When making its determination, the Board did not adjust service line length, or number of customers served, the only factors that would result in a complementary adjustment to contributions. The Board therefore, disagrees with ATCO's submission that there is a direct relationship between forecast capital expenditure for urban service lines and the related contributions.

Accordingly, the Board directs ATCO, in the Second Compliance Filing, to revise the revenue requirement to reflect contributions for Red Deer residential service lines in the original forecast amounts of $705,000 (2003) and $830,000 (2004).

2.2.6 Direction 22 (ESOB Facility Rent)

Direction 22 required that ATCO identify the reduction in rent payable to ATCO Pipelines as a result of the move from the East Side Operating Base (ESOB) facility.

Views of the Applicant

ATCO reduced the 2004 forecast for the North by $18,000 to reflect the reduction in office space and operating costs as a result of moving the Customer Service group to the new Sherwood Park facility from the ESOB facility in the last quarter of 2004. ATCO indicated that the total costs attributable to the group represented 75% of office space rent and 35% of shop and garage rent. The reduction to the 2004 forecast represented 25% of the total costs.

ATCO referred to comments made by the Company during the hearing, pointing to uncertainty with respect to the movement of staff out of ESOB to the Sherwood Park facility, and the potential for other staff to move into that facility from other Company facilities. Given this uncertainty, and the anticipation that any reduction in ESOB rent would be insignificant, ATCO assumed no change in the ESOB rent in the GRA forecast for 2004.

While ATCO has now incorporated a reduction in ESOB rent commencing October 1, 2004, based on the assumption of staff moving from ESOB, no increase in rent has been incorporated to recognize the possibility of staff moving from other locations into the ESOB facility, which could result in no actual reduction in rent.

Views of Interested Parties

CG

The CG noted that ATCO is now forecasting that the Sherwood Park facility would not be occupied until the last quarter of 2004 as opposed to the last quarter of 2003 as originally proposed in the GRA filing. The CG therefore considered this position contrary to the evidence provided by ATCO at the hearing, and that 75% of office space rent and 35% of shop and garage rent should be removed from the revenue requirement in 2004 to reflect reduced ESOB facility usage.

Board Findings

The Board notes the CG's concern that the full amount of the applicable ESOB rent should be eliminated from the 2004 forecast revenue requirement instead of 25% as proposed by ATCO. However, the Board has considered ATCO's submission that prevailing uncertainty, including the potential for other staff moving into the ESOB facility could result in a situation where there would be no actual rent reduction. The Board considers that there is merit in ATCO's submission, and accepts the proposal for a reduction of 25% of the 2004 ESOB costs recognizing that the identified uncertainties could in fact justify inclusion of a full year's rent in the 2004 forecast.

2.2.7 Direction 23 (Vehicles Purchased in 2002 for Meter Reading)

In Direction 23, the Board directed ATCO to reduce the test year forecasts to reflect the fact that fewer vehicles than forecast should be required, on the basis that a number of vehicles purchased in 2002 should now be surplus to requirements for the meter reading program.

Views of the Applicant

While ATCO originally forecast that 28 vehicles would be purchased in 2002 related to monthly meter reading in the North, only 20 vehicles were actually purchased. ATCO indicated that, as a result, the 2003/2004 rate base has already been reduced to reflect the cost of 8 less vehicles in the North. ATCO determined that a reduction of 12 vehicles in the North was required as a result of the move from monthly meter reading. ATCO therefore reduced 2003 forecast capital expenditures in the North for the additional 4 units at a cost of $28,000 per unit.

ATCO stated that 12 vehicles had been purchased in 2002 for meter readers in the South as forecast in the GRA. ATCO determined that a reduction of 7 vehicles in the South was required as a result of the move from monthly meter reading. ATCO therefore reduced 2003 capital expenditures in the South for these 7 units at a cost of $28,000 per unit. ATCO indicated that the total reduction to 2003 capital expenditures was $308,000.

In response to concerns of interested parties, ATCO pointed out that the directive clearly indicated that the test year forecasts had to be adjusted, not the 2003 opening balances.

With respect to Calgary's comments, ATCO indicated that the reference to the purchase of 12 vehicles for meter readers in 2002 (South) was made simply to indicate that there was no difference between the number of meter reader vehicles forecast and actually purchased, so that in updating for 2002 actual capital expenditures, no adjustment was required in addition to the 7 units identified as surplus.

Noting that the CG appeared to be recommending that all vehicle purchases related to additional meter readers should be removed from the forecast, ATCO indicated that the inappropriateness of assuming no increase in the level of meter readers from the 2001 actual number would be addressed in response to Direction 40.

Indicating that the CG had misunderstood the number of vehicle purchases included in the original GRA forecast related to meter reading, ATCO pointed out that the GRA forecast assumed the purchase of 28 vehicles for meter readers in the North in 2002, and that no further purchases were forecast in the GRA related to meter readers for the North. However, ATCO indicated that, to recognize the fact that only 20 vehicles were purchased for this purpose in 2002, the reduction in cost related to the additional 8 vehicles is dealt with in response to Direction 29, which required an update to 2003 opening net plant in service to recognize 2002 actual results. ATCO submitted therefore, that it was inappropriate for the CG to add the 20 vehicles purchased in 2002 to the reduction of 12 units identified as a result of Board Direction 39 to arrive at a total reduction of 32 vehicles in the North, a recommendation that would reduce rate base by more vehicles than were included in the original GRA forecast related to meter reading.

Views of Interested Parties

AUMA/EDM

AUMA/EDM noted that, while ATCO reduced vehicle additions by $112,000 in the North and $196,000 in the South in 2003, the direction was to reduce the number of vehicles purchased in 2002, not 2003. AUMA/EDM submitted that the 2003 opening balances of vehicles should be adjusted by those amounts.

CG

The CG considered that ATCO underestimated the reduction for the number of vehicles in its response to Board Direction 23. The CG submitted that the Board's finding was that fewer vehicles than forecast should be required, on the basis that a number of the vehicles purchased in 2002 should now be surplus to requirements for the meter reading program, given the findings in the Decision. The CG noted that ATCO had assumed that the vehicles actually purchased in 2002 should be included irrespective of the Board's position that they may be surplus to requirements. In the CG's view, 32 vehicles in the North (20 units in 2002 and 12 units after 2002) and 12 vehicles in the South would appear to be associated with the change in meter reading frequency and should be removed from rate base.

Referring to its position that historical levels of meter readers continued to be appropriate, as discussed in relation to Direction 40 below, the CG expressed the view that the number of trucks associated with historical numbers of meter readers was also appropriate.

Calgary

Calgary noted that, while 12 vehicles were purchased in 2002 for meter readers in the South, ATCO removed the costs of only 7 vehicles at $28,000 each from the opening balance, for a total of $196,000. Calgary submitted that, prior to acceptance of this adjustment, a full explanation should be provided as to why the 5 vehicles being retained did not relate to the monthly meter reading program.

Board Findings

Noting AUMA/EDM's concern that the 2003 opening motor vehicle asset balance should have been adjusted as opposed to the reduction to 2003 expenditures proposed by ATCO, the Board is satisfied that the Company has correctly reduced the 2003 forecast, on the basis that the excess purchased in 2002 will reduce the requirement in 2003. The Board considers this approach consistent with the intent in Decision 2003-072.

The Board considers it reasonable that ATCO should reduce 2003 purchases by the number of 2002 vehicles that are now surplus to requirements given the move from monthly meter reading, and is prepared to accept ATCO's submission that the 2003 forecast should be reduced to reflect the fact that 11 vehicles purchased in 2002 are no longer required. The Board is satisfied with ATCO's position in this regard, provided in response to suggestions of interested parties that the number of vehicles considered surplus is incorrectly stated.

The Board considers that the reduction to the 2003 forecast appears reasonable and accepts the adjustments proposed by ATCO in response to Direction 23.

2.2.8 Direction 24 (MRRP)

Direction 24 required that ATCO re-evaluate the Meter Relocation and Replacement Program (MRRP) and incorporate in the Compliance Filing, a revised proposal for replacement of meters with underground entries over a 10-year timeframe, and replacement/relocation of meters with aboveground entries on a schedule coincident with the recall program.

Views of the Applicant

In response to the Board's direction, ATCO modified the original program as proposed in the GRA, resulting in a reduction in capital expenditure forecasts of $2.846 million (2003) and $3.024 million (2004). ATCO also refined the forecast expenditures between North and South based on actual experience gained in the program. In the Compliance Filing, ATCO set out the criteria used to develop the revised parameters and set priorities for the program.

ATCO indicated that the MRRP program as presented in the Compliance Filing results in relocation of meters with belowground entries to an outside location over 10 years, replacement of standard meters over approximately 16 years, and relocation of meters with aboveground entries to an outside location over a time frame in excess of twenty years. ATCO submitted that on completion of this program, the Company will be consistent with the industry standard of having temperature compensated meters located outside sometime beyond 2023.

ATCO stated that, as specified in the EUB direction, all meters with aboveground entries, coincident with the recall program, will be relocated to the outside whether the meter is standard or temperature compensated and standard meters will be replaced. If an inside meter is not relocated outside at the time of its recall, it will be in excess of twenty years before there is another opportunity to move the meter again in conjunction with the next recall. Inside meters with aboveground entries not associated with a recall, will also be relocated and, if it is a standard meter replaced, under the following situations:

- safety hazard to employees entering the home to access the meter;
- long term access problem where customer does not allow access to the meter;
- safety hazards with particular installations e.g. buildovers over the line that require relocation of the meter set.

ATCO provided details of the types of hazards that employees, such as customer servicemen, meter readers, and AMR verifiers, could be exposed to that would require moving the meter set, being situations that the Company is unable to correct in other ways.

ATCO noted that AUMA/EDM recommended that the Company proceed with the work as was presented in the Compliance Filing, and that the Board continue to review the MRRP unit costs and mix of work in future GRAs. ATCO submitted that this approach would allow the Company to update the Board and interested parties on the program as it progresses, and pointed out that the Company is currently proceeding with the MRRP as presented in the Compliance Filing.

ATCO stated that the CG and Calgary were incorrect in asserting that the increase in the cost to move meters in conjunction with recalls as opposed to moving them as part of the originally proposed program was not supported. ATCO noted that information on the increase was filed in Section 2 of the Business Case provided in response to BR-AG.24[c], where it was explained that doing the work at individual sites would require between 2.2 and 1.7 times (or 70%) more labour, and for relocations without alterations, the original program would require 1.7 times more labour if the work was done in conjunction with recalls.

In addition, ATCO pointed out that the Business Case also explained that there would be extra costs, mainly labour, addressing activities that do not occur on every move, such as concrete removal and replacement, sod replacement, and special boring equipment, since these services would not be delivered to many homes in close proximity at the same time. ATCO indicated that the Company would strive to complete the moves in conjunction with recalls, whether standard or temperature compensated, as efficiently as possible through grouping the work as much as possible. For this reason, an increase of only 50% was applied to the cost of moving meters in conjunction with meter recalls, rather than the larger percentage of 70% identified in the labour analysis presented in the Business Case. Accordingly, ATCO disagreed with AUMA/EDM that application of a 50% increase was a worst-case scenario.

In response to a question from the CG, ATCO explained that all activities associated with the MRRP will be capitalized, an assumption consistent with the forecast for MRRP provided in the Compliance Filing. ATCO determined that a reduction to Operating and Maintenance (O&M) costs associated with meter recall activities (Board Direction 26) was required as a result of the impact of the MRRP on those activities. ATCO indicated that the reduction in costs had been determined based on 6,500 meter recalls in 2003 and 6,400 in 2004, at an average cost per recall of $37 (2003) and $38.48 (2004). ATCO pointed out that the split of this adjustment between labour and supplies costs was based on the principle used in the Compliance Filing, as discussed in the response to Board Direction 26. ATCO assumed that 84% of this adjustment related to labour costs, and 16% to supplies cost (excluding fringe benefits). ATCO indicated that it would reduce the revenue shortfall as reflected in the Compliance Filing by these amounts, and that the related working capital impact of this change would be addressed in a future compliance filing.

ATCO submitted that the CG's suggestion that the number of aboveground entries that will be replaced/relocated should be 3,200, was incorrect since it did not include the 4,600 aboveground standard meters to be replaced/relocated annually and incorrectly estimated the number of temperature compensated meters to be relocated. ATCO pointed out that temperature compensated meters were not included in the forecast 16-year period over which standard meters would be recalled, and that the number of temperature compensated meters to be moved annually was forecast based on average recall rates and an estimate of the proportion of those meters that will be located inside. ATCO stated that the actual period that a meter will stay in service between recalls varies from 15 to 25 years, and that the 6,300 aboveground replacements/relocations was correct.

ATCO explained how the original North/South allocation was derived in BR-AG-144(a) and also stated that there was no difference in the unit costs between the North and South to relocate meters. ATCO went on to state in the response to CAL-AG.53(b) that the work in 2003 and 2004 would be split evenly between the North and South, and that based on this information, the equal allocation of costs between North and South in the Compliance Filing is an accurate representation of how the costs will be incurred.

Views of Interested Parties

AUMA/EDM

AUMA/EDM referred to the following statement made by ATCO in response to Direction 24:

> While every effort will be made to group the recall and relocation activity by area, there will be an increase in the labour requirements to complete the move due to greater travel time and less efficient use of staff and equipment. This was described in the original Business Case BR-AG-24(c). ATCO Gas is forecasting this loss in efficiency will result in a 50% cost increase for the moves associated with recalls.

AUMA/EDM noted that the only reference to a 50% increase in costs in BR-AG-24 indicated that the ratio of man days per meter move would range from 1.4 to 2.1 depending on the size of crew and distance between alteration sites. In AUMA/EDM's view, it appeared that ATCO assumed the worst-case scenario despite its efforts to group recall and relocation activities. AUMA/EDM noted that the 50% assumption added about $2.4 million or 10% to the estimated 2003 MRRP costs bringing the estimate up to $24.5 million. AUMA/EDM expressed concern with the assumption that costs would increase by 50% and considered that, under the circumstances, ATCO should be directed to expend the full forecast amounts of $24.5 million (2003) and $25.2 million (2004), which appeared to be the case with historical bare mains replacements, and continue to update the unit costs and mix of alterations that require service alterations for use in future GRA's.

CG

The CG considered that the basis for ATCO's determination that 6,300 above ground entry meters would be moved in each of 2003 and 2004 was unclear. The CG pointed out that the Board's direction was that ATCO should determine the number of above ground replacements/relocations consistent with the recall program. Referring to the response to BR-AG-24[c] indicating that there are 105,900 above ground entries, the CG calculated that, based on the 16-year cycle for recall and ATCO's evidence that recall of 55,000 temperature compensated meters would not be completed for 20 or more years, the number of above ground entries to be replaced/relocated would be about 3,200 [(105,900-55,000)/16] rather than 6,300 as proposed by ATCO.

The CG noted ATCO's position that the relocation of above ground entries in conjunction with the recall program would result in loss of efficiencies, resulting in an estimated increase of 50% in the average cost of relocation. The CG pointed out that this increase was unsupported, and that ATCO should explain in more detail how the cost components would change if relocation/alternation were carried out in conjunction with the recall program. The CG considered that ATCO should also take account of the impact of its proposed policy on capitalization of meter replacement/refurbishment costs, as set out in response to Direction 27, when estimating the capital costs in response to this direction.

Calgary

Calgary referred to the following statement made by ATCO in response to Direction 24:

> ATCO Gas is forecasting this loss in efficiency will result in a 50% increase for the moves associated with recalls.

Calgary considered it unacceptable for the costs of a program, forecast to cost $27.290 million (2003) and $28.169 million (2004) based on a five year program, to double in response to a Board directive, without substantial supporting documentation. Calgary submitted that ATCO should be compelled to substantiate the 50% increase, or decrease the original forecast cost by 50% to represent a 10-year program as opposed to the 5-year program originally proposed. Calgary also pointed out that ATCO had shifted cost responsibility for the adjusted amounts by several million dollars between North and South, without any substantiation or documentation. Specifically, Calgary noted that costs had increased in the South and decreased in the North compared to the original forecast. Calgary submitted that ATCO should be compelled to fully justify the cost shifts or prorate the 10-year cost between North and South based on the original forecast.

Board Findings

The Board is satisfied that ATCO has responded appropriately to the Board's intent with respect to the MRRP by proposing an alternative that recognizes the criteria for prioritization of the Program set out in Decision 2003-072. The Board notes that interested parties have expressed no concern with the substance of the proposals, other than to take issue with the increase in costs, support for some of the forecast amounts and allocation of those amounts to North and South.

The Board notes the concerns of interested parties that the proposal for a 50% increase in the cost to move meters in conjunction with recalls as opposed to moving as part of originally proposed program was not supported. The Board acknowledges ATCO's submission that increased costs (in conjunction with recalls) were adequately supported by information provided in the Business Case provided with the response to BR-AG-24[c], which indicated that replacement/relocation on this basis would increase costs by 70%. Having reviewed ATCO's response to the concerns expressed, the Board considers that the proposal for a lower increase of 50% is reasonable, recognizing the Company's commitment to group the work as much as possible.

With respect to the CG's calculation that the number of above ground entries to be replaced/relocated should be about 3,200 rather than 6,300 as proposed by ATCO, the Board notes ATCO's position that the CG calculation included some incorrect assumptions and excluded certain relevant factors. The Board has examined the respective positions, and accepts ATCO's conclusion that 6,300 aboveground entries would be replaced rather than the 3,200 suggested by the CG. The Board notes that, in response to comments of the CG regarding the need to reflect the impact of the MRRP revisions on costs associated with meter recall activities, as discussed in Direction 27, ATCO has identified the requirement for a further reduction to

O&M costs to reflect the impact of MRRP revisions on these activities. The Board has examined the related calculations, and agrees with ATCO's proposal to address the full impact of this change in the Second Compliance Filing.

The Board has examined ATCO's response to Calgary's concern that the allocation of costs to North/South had shifted as a result of the proposed MRRP revisions, and is satisfied that, consistent with CAL-AG-53(b), which indicated that the work would be split evenly between North/South, the adjustments result in MRRP forecasts of $12.2 million (2003) and $12.6 million (2004) for each of North and South.

Based on ATCO's response to this Direction, and explanations provided in response to concerns of interested parties, the Board is prepared to accept the Company's proposals for revision to the MRRP as set out in the Compliance Filing, subject to the need to address the working capital impact of the additional reduction related to the O&M expense adjustments as calculated by ATCO. The Board also acknowledges ATCO's commitment to update interested parties as the Program progresses, which will allow the Board, in future GRAs, to continue to review the MRRP unit costs and mix of work and to evaluate the ongoing need to move all meters to outside locations.

Accordingly, in the Second Compliance Filing, the Board directs ATCO to reflect the working capital impact of the adjustment to O&M expense for the test years to recognize the impact of MRRP revisions on costs associated with meter recall activities. The Board also directs ATCO, at the next GRA, to incorporate an update on the status and related costs of the MRRP, complete with supporting information.

2.2.9 Direction 25 (Transfer from Capital to O&M Expense)

In Direction 25, the Board directed ATCO to adjust capital and O&M forecasts to reflect the re-instatement of $6.5 million to Administration and General Expense.

Views of the Applicant

ATCO reduced capital forecasts and increased O&M forecasts by $6.479 million (2003) and $6.5 million (2004) in response to this Direction.

In response to a concern raised by Calgary, ATCO indicated that, in removing the capitalized administrative charges from forecast O&M, it determined the allocation of that adjustment between North and South based on an approximation of how those charges were allocated between North and South in the O&M expense category. ATCO pointed out that the split of the charges between North and South in the Compliance Filing is consistent with the reductions to capital expenditures in the GRA.

Views of Interested Parties

Calgary

Calgary was satisfied that the adjustment was proportional to the forecast for North and South, but pointed out that the adjustments to O&M did not agree with the change in capital.

Board Findings

The Board acknowledges ATCO's submission that adjustments to both capital and O&M are consistent with the allocation of charges in the GRA, and accepts the adjustments as proposed in response to the Direction.

2.2.10 Direction 26 (Meter Recall Costs)

Direction 26 required that ATCO eliminate from test year capital forecasts, all expenses related to the meter recall activity and add those costs to O&M forecasts. In the Direction, the specific meter recall costs identified, as per the response to BR-AG-63, were $1.43 million (2003) and $1.47 million (2004).

Views of the Applicant

ATCO reduced capital expenditures and removal costs, and increased O&M expense, by a total of $1.59 million (2003) and $1.65 million (2004) including fringe benefits, which were not included in the response to BR-AG-63.

ATCO submitted that a portion of the capital related adjustment for meter recalls related to removal costs, which had also been reduced, noting that Calgary appeared to have made a transposition error in calculating the allocation to the South in 2003. ATCO indicated that the response to the Direction clearly showed that the adjustment to rate base (including removal costs) and the adjustment to O&M were equal.

Regarding the adjustment to depreciation expense related to meter recalls, ATCO indicated that this occurred through the removal of capital expenditures from the depreciation calculation, as provided in the response to Direction 59.

Views of Interested Parties

Calgary

Calgary stated that the adjustments to O&M appeared to exceed the reduction to capital, and questioned why there would not have been some explicit adjustment for depreciation. Calgary expressed concern that it was unclear how the adjustments to capital had been reflected in the depreciation adjustments.

Board Findings

The Board has examined ATCO's response to Calgary's concern regarding imbalance in the adjustments to O&M and capital, and notes that the impact of the reduction to removal costs needs to be factored into the calculation of the adjustment. The Board also acknowledges ATCO's explanation that the impact on depreciation has been reflected in the response to Direction 59.

The Board accepts the adjustments proposed by ATCO in response to Direction 26.

2.2.11 Direction 27 (Meter Refurbishment/Maintenance)

In Direction 27, the Board directed ATCO to refine its internal Code of Accounts to clearly distinguish between the types of expenditure related to meter refurbishment that relate to extension of the life of meters, and those related to maintenance.

Views of the Applicant

ATCO provided details of the various types of expenditure classified as either capital or maintenance, based on guidelines adopted internally. ATCO indicated that the Company is in the process of finalizing a policy with respect to this matter.

In response to a question from Calgary, ATCO indicated that Direction 27 did not require the filing of an accounting policy with respect to meter recall and refurbishment activities. ATCO stated that the policy had not been completed and submitted that the compliance filing process should not be further delayed for the completion of something that simply formalized what the Company had already committed to in the response. ATCO stated that the guidelines as outlined had been adopted and are being followed.

ATCO pointed out that Measurement Canada accreditation status and quality assurance programs and controls within the meter shop was not required for the purpose of recalling meters. ATCO explained that Measurement Canada audits quality assurance programs, controls and competency of staff related to the meter shop on an annual basis, and that without the accreditation, the Company could not perform the refurbishment activities required to extend the life of meters. ATCO stated that these requirements all relate to work performed within the meter shop, once the meter has been recalled, and that these costs were therefore appropriately capitalized with the other meter refurbishment costs.

ATCO stated that, while training of staff involved in meter refurbishments would seem to be self-explanatory, the Company would identify training of staff involved in meter recall activities, including inspection and testing of meters on customer premises as a charge to O&M with respect to meter recall activities, if preferred by the CG.

ATCO indicated that warehousing of meters for refurbishment was a cost that would not be incurred if the meter was to be scrapped, and was appropriately capitalized as part of the meter refurbishment process.

ATCO confirmed that O&M and capital forecasts for 2003 and 2004 were consistent with the guidelines identified in Direction 27, and that the Company had used these guidelines in the determination of the Compliance Filing forecasts. ATCO noted however, that any movement of meter recall/refurbishment activities between capital and O&M made by the Board would necessitate a change in the Compliance Filing forecast.

Views of Interested Parties

CG

The CG noted that ATCO proposed to capitalize certain indirect costs associated with meter refurbishments, which appeared to be more in the nature of O&M costs. By way of example, the CG referred to the following items earmarked for capitalization under account 478:

- maintenance of accreditation status and development of quality assurance programs and controls within the meter shop;
- training of staff involved in meter refurbishments; and

- warehousing of meters for refurbishments.

In the CG's view, although these indirect expenditures relate to meter refurbishment activity, they might not relate entirely to expenditures capitalized. For example, the category of training of staff might include staff that would carry out inspections and testing, an O&M related activity per the proposed policy. In view of the indirect nature of these expenditures, the CG recommended that the three items referred to be expensed rather than capitalized. The CG also recommended that ATCO should confirm that O&M and capital forecasts for 2003 and 2004 had been developed consistent with this proposed capitalization policy.

Calgary

Noting that ATCO is in the process of finalizing a policy with respect to capitalization versus expensing of meter refurbishment costs, Calgary submitted that ATCO should be required to file the policy prior to Board approval of the Compliance Filing.

Board Findings

Having considered ATCO's response to the concerns of interested parties regarding the appropriate classification of certain specified categories of cost relating to meter refurbishment activities, the Board is not prepared to accept ATCO's conclusion that all costs have been appropriately classified in the Compliance Filing. In particular, the Board considers that costs associated with cleaning and painting, shrink-wrapping and storage, transportation to and from various locations, and training of staff should remain part of the O&M program.

Accordingly, the Board directs ATCO, in the Second Compliance Filing, to adjust the capitalized meter refurbishment program, to exclude the costs associated with the activities identified above.

The Board agrees with ATCO that there is no need to file a copy of the capitalization policy prior to approval of the filing, recognizing that Decision 2003-072 did not specify this requirement, on the assumption that ATCO will revise its policy to reflect the revisions identified above. The Board further directs ATCO to file the revised policy upon completion.

2.2.12 Direction 28 (Adjustment to Opening Plant Balances)

Direction 28 required that ATCO revise 2003 opening plant balances to remove the cost of meter recall capitalized prior to the test years.

Views of the Applicant

ATCO reduced 2003 opening plant balances by $1.694 million to remove actual meter recall costs capitalized in 2002. ATCO also reduced 2003 opening Undepreciated Capital Cost (UCC) pools by $1.706 million for this adjustment.

ATCO included the cost of 2002 meter recall costs in the 2002 Capital Cost Allowance (CCA) pools in the GRA forecast, consistent with their capitalization, and due to removal of those costs from rate base, these costs also had to be removed from the CCA pools. ATCO stated that not to do so would result in customers continuing to receive the income tax benefit associated with capitalization of these costs, while the Company is required to reflect the adjustment to its O&M with no offsetting income tax deduction, which would clearly be inappropriate.

Regarding the adjustment to the 2002 CCA tax pools related to this directive, ATCO indicated that the pools had been adjusted for the capital and removal costs, not by the net book value of those costs.

ATCO confirmed that 2002 meter recall costs removed from the 2003 opening rate base did not include any amounts which were treated as indirect deductions for income tax purposes, and submitted that the CG comments related to capitalization of meter refurbishment costs in the North in 2002 were inappropriate. ATCO pointed out that the Board found the capitalization of meter refurbishment costs to be appropriate in Decision 2001-96[1] and in reaffirming that finding in the Decision 2003-072, for both North and South, did not direct ATCO to remove those costs from opening rate base. ATCO stated that the Board had determined that meter recall costs were more appropriately expensed to O&M, and as such had directed the removal of the 2002 recall costs from rate base, a directive with which ATCO has complied.

ATCO pointed out that the adjustment to removal costs related specifically to meter recall activities, with specific reference to costs to disconnect, retrieve and transport the meter to the meter shop. ATCO submitted that these are costs that would now be charged to operating expense.

Views of Interested Parties

CG

Noting that ATCO reduced 2003 opening UCC pools by $1.706 million, the CG expressed concern that this amount may have already reduced the UCC balance if ATCO was able to deduct these expenditures as indirect costs in prior years. The CG considered that ATCO should confirm that this was not the case.

The CG did not agree that there was any consensus for the capitalization of refurbishment costs, and referred to the following relevant response to BR-AG-63:

> The North Core Agreement contains certain clauses that could be viewed as relating to this matter. During the 2002 negotiations, there was consensus that these clauses would not prohibit ATCO Gas from capitalizing these costs in 2002. It was also agreed that the appropriateness of this change in policy could be reviewed in the 2003/2004 General Rate Application proceeding, without reference to the North Core Agreement.

The CG noted that the consensus was that ATCO could record the costs however it wished for 2002 and that the appropriateness of the accounting entry or policy would be reviewed in the 2003/2004 GRA. The CG noted the following ruling from Decision 2003-072:

> The Board notes the concern of the CG that where changes to capitalization policy have been put into effect prior to the test years without specific Board approval, opening plant balances for the test years should be adjusted to remove the effect of those changes. The Board agrees with the CG and accordingly, directs ATCO to revise 2003 opening plant balances to remove the costs of meter recalls capitalized prior to the test years. [2]

[1] 2001-96 – ATCO Gas South, 2001/2002 General Rate Application Phase I, dated December 12, 2001
[2] Decision 2003-072, p. 90

The CG noted that specific Board approval must be obtained for accounting changes, and considered that 2002 refurbishment costs capitalized should have been expensed in that year. The CG submitted therefore, that the opening 2003 capitalized amounts for meter refurbishment should be reduced for the North by the amount capitalized in 2002.

The CG also considered it inappropriate to include removal costs in the adjustment to capitalized expenditures, as removal costs are required for refurbishment. The CG submitted therefore, that the 2003 removal costs should not be removed in making the adjustment.

Calgary

Calgary stated that it was unclear why ATCO should have made adjustments to the CCA schedules, as presumably these amounts should have been deducted for income tax purposes in 2002. Calgary submitted that, if these amounts were not deducted for tax purposes, there would appear to be a problem (at least for ATCO Gas South) in that the 2002 income tax expense was incorrect. This would result in a possibility that customers would not have received the benefit of the deduction for which the CCA adjustment is now being made, and at the same time would forego some or all of the tax adjustments associated with the meter recall costs for 2002.

Calgary stated that furthermore, it was not clear why the adjustment to the CCA schedules should be greater than the net plant adjustment of $533,000 proposed pursuant to this Direction.

Board Findings

The Board has considered ATCO's response to the concerns of interested parties related to proposed adjustments to CCA pools, and accepts ATCO's explanation that 2002 meter recall costs did not include any amounts treated as indirect deductions for tax purposes, and that the removal of the costs from CCA pools in the Compliance Filing is appropriate. Furthermore, the Board agrees with ATCO that CCA pools have been correctly reduced by gross expenditures and not net costs after depreciation, which were deducted from net plant.

The Board acknowledges that the capitalization of refurbishment costs was approved in the North for 2002, based on consensus for change in the North Core Negotiations. The Board therefore agrees with ATCO that Decision 2003-072 confirmed this position, and disagrees with the CG submission that those costs should have been expensed in 2002. As pointed out by ATCO however, recall costs have been properly deducted from the 2003 opening balance.

With respect to the CG's submission that removal costs should not be included in the adjustment, the Board accepts ATCO's position that removal costs are associated with other recall activities, and appropriately charged to O&M expense.

The Board accepts the adjustments proposed by ATCO in response to Direction 28.

2.2.13 Direction 30 (NWC Lag Days)

In Direction 30, ATCO was directed to revise the calculation of Necessary Working Capital lag days for transactions with ATCO Pipelines to reflect the findings in Decision 2001-96.

Views of the Applicant

ATCO adjusted the revenue and O&M lags, and updated the lead/lag schedules to remove the transactions with ATCO Pipelines.

ATCO agreed that the calculation of the affiliate O&M lag of 34.02 days included non-utility amounts, and made the adjustment for non-utility amounts in the Other O&M Expenses line of the O&M lag calculation. ATCO viewed that the concerns of Calgary with respect to this matter should have been raised during the GRA proceeding.

ATCO explained that if an adjustment were made to remove affiliate non-utility O&M in the affiliate lag calculation rather than from the other O&M lag calculation, the net O&M lag would change from 4.79% to 4.78%. ATCO did not view that an adjustment was required given the insignificance of this change, and noted that the 2003/2004 O&M expense to which the O&M lag is applied does not include any non-utility amounts.

Views of Interested Parties

Calgary

Calgary noted that the remaining affiliate amounts used to calculate the lead/lag do not agree with the "actuals" on Table 7.2-2 and also include items that are non-utility related, such as signature rights. Calgary expressed concern that rent expense exceeded the amount provided for in the Compliance Filing, and discussed in the context of Direction 53.

Board Findings

The Board acknowledges ATCO's position that the treatment of non-utility amounts in the Necessary Working Capital calculation is consistent with GRA treatment, and is not a relevant issue for the Compliance Filing, and that any adjustment to remove non-utility amounts from the affiliate lag calculation would be insignificant. The Board notes however, that ATCO failed to respond to Calgary's concern regarding the amount included for rent expense, and that the base for the affiliate lag calculation did not agree with the non-regulated affiliate expense amounts set out on Table 7.2-2 in the GRA. Before accepting ATCO's proposed revision pursuant to Direction 30, the Board needs to evaluate ATCO's response to the concerns raised by Calgary.

Accordingly, in the Second Compliance Filing, the Board directs ATCO to provide an explanation of the reasons why the Inter Company Expense totals (Updated Lead/Lag Schedules - page 6 of 7 of the Compliance Filing) differ from the non-regulated affiliate expense totals included on Table 7.2-2 of the GRA. The Board also directs ATCO to explain why the total of ATCO Centre Rent included on the schedule of Inter Company Expense totals (page 6 of 7) exceeds the rent expense referred to in the response to Direction 53.

2.2.14 Direction 34 (Common Equity Ratio)

In this Direction, the Board directed ATCO to maintain a common equity ratio of 37% for the test years.

Views of the Applicant

ATCO adjusted common equity to attain a mid-year ratio as close to 37% as possible.

ATCO indicated that the common equity ratio in the utility capital structure was impacted by no-cost capital and the requirement to balance the capital structure to rate base through short-term debt. ATCO stated that, as no intervener, other than AUMA/EDM expressed concern regarding the Company's approach in the Compliance Filing, the Board should accept the approach as filed.

Views of Interested Parties

AUMA/EDM

AUMA/EDM noted that the common equity ratios in the Compliance Filing were as follows:

Table 1. AUMA/EDM Common Equity Ratio

	2003	2004	
ATCO Gas North	38.1%	37.8%	Schedule 3.2-H
ATCO Gas South	35.0%	36.6%	Schedule 3.2-O

AUMA/EDM submitted that it could see no reason why the common equity ratios for the North and South should not be the same and that the Board should deem the ratios to be 37.0% for each of the North and South in 2003 and 2004.

Calgary

Calgary noted that the average common equity ratio for the North and South exceeded 37% for 2004, although the South ratio is less than 37%.

Board Findings

While noting the concerns of AUMA/EDM regarding the differences in common equity ratio between North and South, the Board acknowledges ATCO's position that the existence of no-cost capital and the need to balance the capital structure to rate base through short-term debt will have an impact on the level of the common equity ratio. The Board further notes that ATCO's approach is similar to the approach it took in its initial GRA filing. In its Phase I Application, ATCO submitted slightly different common equity ratios for the North and South. However, the Board notes that interested parties in the GRA proceeding did not file specific written argument regarding ATCO's approach with respect to the use of separate equity ratios for the North and South. In addition, the Board notes that the common equity ratios presented by AUMA/EDM, as shown in Table 1, included short-term debt and no-cost capital in the breakdown of capital structure.

Based on ATCO's Compliance Filing, the forecast capital structure ratios are presented in the following table for ATCO and the North and South for the test period 2003-2004:

Table 2. ATCO Forecast Capital Structure Ratios for 2003-2004[3]

	2003			2004		
	ATCO (%)	North (%)	South (%)	ATCO (%)	North (%)	South (%)
Debt	55.7	54.1	57.2	56.5	55.3	57.6
Preferred Shares	7.0	8.2	6.0	6.5	7.7	5.5
Common Equity	37.3	37.7	36.8	36.9	37.0	36.9
	100.0	100.0	100.0	100.0	100.0	100.0

As is shown in Table 2, the individual common equity ratios for ATCO and the North and South for 2003 and 2004 are within a close approximate range of the Board approved equity ratio of 37%. In addition, during the test period 2003-2004, the average common equity ratio for the North is 37.3%, while the average common equity ratio for the South is 36.9%. The Board notes that both common equity ratios are relatively close to the approved ratio of 37.0%. In addition, on a consolidated basis, the average common equity ratio for ATCO is 37.1% during the test period 2003-2004.

The Board considers that ATCO's forecast common equity ratios for ATCO and the North and the South for the test period 2003-2004 are in line with the Board approved common equity ratio of 37%. Accordingly, the Board accepts ATCO's forecast individual common equity ratios and capital structures for North and South for 2003 and 2004.

2.2.15 Direction 35 (Adjustment for Labour Inflation Rate)

In Direction 35, ATCO was directed to adjust its labour forecasts to reflect a 3.25% inflation rate.

Views of the Applicant

ATCO adjusted O&M expense to reflect a labour inflation rate of 3.25% and a change in vacancy rate from 4% to 6%, as per Direction 36.

ATCO disagreed with the CG's premise that the Board had directed the Company to restate the 2004 labour dollars in 2002 dollars adjusted for inflation. ATCO noted that the wage inflation and vacancy rate calculations were premised on the assumption of averages, given that not every employee in the Company receives the same percentage salary increase nor earns the same average salary. Given the high level nature of the required adjustments, ATCO stated that these types of assumptions must be relied upon and that attempting to finesse them even further is implying a greater level of accuracy in the calculations than can be achieved. Given the insignificance of the adjustment identified by the CG and the fact that no other intervener expressed concern with the calculations, ATCO submitted that the Board should approve the calculations as filed.

[3] Based on the forecasts provided in Schedule 3.2-H for ATCO Gas North and Schedule 3.2-O for ATCO Gas South.

Views of Interested Parties

CG

The CG submitted that the adjustment for the change in inflation rates in the Compliance Filing from 4.0% to 3.25% for the 2004 test year was slightly understated, pointing out that ATCO simply transferred the inflation adjustment amounts calculated for the 2003 test year to the 2004 test year. The CG submitted however, that the base labour amounts for the 2003 and 2004 test years are different, with the result that the required 2004 adjustment is understated.

Specifically, ATCO's 2004 test year estimates represent estimates in 2002 dollars escalated for 2 years at 4.0% per year (or 2002 dollars x 1.0816). The CG pointed out that the direction required that the 2004 test year estimates be in 2002 dollars escalated at 3.25% per year (or 2002 dollars x 1.0661). To determine the required adjustment to the 2004 forecasts, the CG submitted that an adjustment needed to be made to remove the inflation factor at 4% per year and add the approved inflation factor at 3.25% per year. The CG calculated that such an adjustment would further reduce O&M labour for 2004 by $16,000 (North) and $13,000 (South).

The CG also submitted that if the Board accepted its position, as expressed in relation to Direction 1, that no additional FTE is required for 2004 in relation to North/South Reporting Requirements, O&M labour could be further reduced. Specifically, the forecast of $41,000 for Reporting Requirements in the North would be adjusted for vacancy and inflation and reduced to $40,000. Similarly for the South, the forecast of $40,000 would be reduced to $39,000.

Board Findings

The Board considers that ATCO has complied with the intent of Direction 35 in calculating the adjustment to labour forecasts, and agrees that, while the CG's calculation may attach a greater level of accuracy, the end result is not significantly different. The Board therefore accepts ATCO's calculation acknowledging the high level nature of the assumptions.

Having accepted ATCO's proposals for inclusion of additional costs in response to Direction 1, the Board is satisfied that no further reduction is required to O&M Labour.

2.2.16 Direction 37 (Other Labour Expense Adjustments)

In Direction 37, the Board directed ATCO to revise the calculation of forecast O&M labour expense for the test years after application of the findings in the Decision with respect to the inflation rate, vacancy rates and final FTE numbers. The Board also expected ATCO to revise the capital components of the labour forecasts to reflect the conclusions in the Decision dealing specifically with staffing for new programs.

Views of the Applicant

ATCO provided details of the revisions made to test year forecasts of O&M and Capital labour costs and FTE's in response to the direction, and indicated that reductions to capital expenditure forecasts would be managed through contract labour as opposed to Company labour.

As discussed in response to CG-AG-81(b), ATCO pointed out that capital expenditure forecasts are based on total project costs or unit rates, and individual cost components such as labour and supplies are not used. ATCO stated that historical unit rates and project costs would take into consideration the impact of vacancies related to staff devoted to the performance of capital projects, and that the forecast increase in unit rates and total project costs takes into consideration known or estimated contract price increases and general inflation.

ATCO submitted that the various capital related directives in Decision 2003-072 were for the most part general in nature, and that if the Company were required to further reduce the forecast amount of individual components for the changes in vacancy rates and labour inflation, ATCO capital expenditure forecasts would in effect be reduced twice for these considerations, which would not be appropriate.

ATCO considered that Direction 36 appeared to confirm the Board's intent not to include capital related staffing in the vacancy rate adjustment, and believed that the Board recognized that it had already taken such matters into consideration in the individual directives related to capital expenditures.

ATCO indicated that the Company would manage reductions to capital expenditure forecasts through contract labour as opposed to company labour, having made this determination by reviewing the areas where the Board directed reduction of forecast capital expenditures and concluding that the work in these areas, such as Urban Mains Replacement and MRRP, areas where contractors were used extensively. Further, the redesign of the MRRP program would not substantially affect forecast capital expenditures until the years beyond the 2003/2004 test period. In practical terms, since ATCO will be reducing capital expenditures in 2003 and 2004 by reducing contract labour, not by reducing in-house labour, it was unnecessary to revise the capital labour forecast in the Compliance Filing.

Views of Interested Parties

CG

The CG noted that the Board expected ATCO to revise not only the O&M component of labour costs but also the capital component, since together these comprise total GRA labour. The CG interpreted this directive to require ATCO to adjust capital labour for approved vacancy and inflation factors.

In reviewing the response, the CG considered it apparent that ATCO had utilized O&M labour costs, adjusted for vacancy and inflation factors, but capital and other labour costs that were not adjusted. The CG submitted that this approach did not conform to the directive and was difficult to understand given that there is one GRA labour pool, for which costs have been forecast. The CG therefore, presented a calculation showing the effect of adjusting the capital and other labour costs for vacancy and inflation factors. Referring to the response to BR-AG-148, the CG pointed out that ATCO defined other labour costs as "costs for various internal services that are charged to the balance sheet. These labour costs become part of an internal charge out rate for these services". The CG submitted that this further supported the position that one labour pool is being addressed and adjustments should not be limited to the O&M portion of the labour pool only.

The CG calculated additional reductions to capital labour of $865,000 (2003) and $1.137 million (2004), and to other capital labour of $123,000 (2003) and $162,000 (2004), and recommended that ATCO should amend total adjustments to capital accordingly. The CG submitted that, since Other Labour Costs are part of internal charge out rates, ATCO should identify whether these charges were forecast as part of O&M or capital and provide appropriate adjustments in a refiling.

Calgary

In Calgary's view, there appeared to be a monetary change in O&M expense related to the meter recall capitalization, but no change indicated for the change in the MRRP from 5 years to 10 years. Furthermore, Calgary did not believe that the adjustments properly reflected the Board's decision particularly as it related to the switch to bi-monthly meter reading. Calgary indicated that comments on this matter would be provided in the context of the discussion of Directions 39, 40, and 41.

Board Findings

The Board acknowledges ATCO's comments in response to CG-AG-81, that the majority of capital work is contracted out and that capital expenditure forecasts are based on historical unit rates and project costs that take into consideration the impact of vacancies related to staff devoted to the performance of capital projects, known or estimated contract price increases and general inflation factors. The Board therefore accepts ATCO's position, that any further reductions to capital labour costs (which are determined based on these project costs) would result in capital forecasts being effectively reduced twice for these considerations. The Board agrees with ATCO's conclusion that these reductions have been taken into account in other Board reductions to capital forecasts, and acknowledges ATCO's commitment to manage reductions to capital expenditure forecasts by reductions in contract labour.

Accordingly, the Board disagrees with interested parties that there is need for further reductions to capital labour, and accepts ATCO's adjustments to capital and O&M labour as filed in response to Direction 37.

2.2.17 Directions 39, 40 and 41 (Monthly Meter Reading)

These Directions required that ATCO revise the test year forecasts for the meter reading program to reflect the cost of reading meters once every two months, indicate the appropriate number of meter readers required, and decrease O&M forecasts to recognize direct and indirect labour costs, associated fringe benefits and related costs to the level required to accommodate the appropriate level of staffing consistent with the Decision.

Views of the Applicant

In response to these directions, ATCO revised the test year forecasts to reflect the cost of attempting to read meters every two months. ATCO provided detailed evidence to support the number of meter readers required for bi-monthly meter reading. The evidence included an Ergonomics Evaluation of health, safety and environmental impacts on meter readers prepared by EWI Works in February 26, 2003. ATCO concluded that a total of 131.5 meter readers was required (81 in the North and 50.5 in the South).

ATCO disagreed with the assumptions made by Calgary, noting that Calgary used $35,823 as an average cost for the meter reading labour reductions. ATCO pointed out that the cost of $35,823 was an average cost of a meter reader excluding fringe benefits provided in response to BR-AG-53, which took into account the various lengths of service of all meter readers. ATCO indicated that, on the other hand, the cost reductions in Direction 35 were based on costs for newly hired meter readers, which average $32,440.

ATCO also noted that the average supplies cost used in Calgary's calculation was based on supplies costs identified in BR-AG-53 which were fringe benefits on the average labour cost of a meter reader, while the reductions in supplies in response to Direction 41 relate to travel and uniform costs for meter readers and does not include fringe benefits. ATCO pointed out that the fringe benefit reduction related to meter readers had been included in the response to Board Direction 55.

ATCO submitted that Calgary's South number, which was based on the split of meter reader additions per the response to CG-AG-80, was overstated by 7 positions. ATCO indicated that the response identified 131 meter reading related positions by business unit, which included positions for Prairie Peaks that includes Red Deer, the cost of which is charged to the North.

Finally, ATCO submitted that Calgary had ignored information given in response to Direction 40 describing the meter reading requirements for Calgary, and noted Calgary's position that the Compliance Filing contradicted evidence provided at the hearing. ATCO disagreed, noting that while the focus in the 2003/2004 GRA proceeding with respect to meter reading was, without question, the change in meter reading frequency, the forecast took into account that an increase in the number of meter readers was required since circumstances related to meter reading had changed. ATCO submitted therefore that, while required to alter the GRA forecast to remove the impact of monthly meter reading, the Company must still be allowed to recover the increase in costs related to changed circumstances.

ATCO referred to questions of the CG as to why the change in meter reading frequency from tri-monthly to bi-monthly for the North resulted in more than doubling the number of meter readers, and the reasons for the increase in Calgary and in the North outside of Edmonton. ATCO explained the reasons in detail, all of which related to changed circumstances between 1997, 2001 and 2003.

In response to a request from the CG for a schedule showing the historical ratio of meter readers to customers and for justification of any increase requested on that basis rather than theoretical assumptions, ATCO explained why a simplistic calculation on the basis of customers is inappropriate, indicating that customer growth is only one of the determinants and cannot be used solely in determining meter reader requirements.

Views of Interested Parties

CG

The CG noted that ATCO's forecast of the number of meter readers required was based on certain theoretical assumptions including number of attempts per hour per man, number of man hours per reader per day and allowances for training. The CG submitted that the resulting proposal more than doubles the number of meter readers in 2001 for the North and is 9.5 FTE more than the number employed in 2001 for the South.

Although the Board approved a move in meter reading frequency from tri-monthly to bi-monthly for the North, the CG considered it unclear how this change in itself resulted in more than doubling the number of meter readers in the North. The CG submitted that ATCO should provide supporting evidence to identify the increase in meter readers in the North as a result of the move to bi-monthly reading.

The CG also questioned how the estimate of 44 meter readers for outside Edmonton was arrived at, noting that ATCO cited customer density and number of customers requiring manual reads as reasons why the number of readers for the area outside Edmonton is high. The CG stated however, that ATCO had not shown how differences in customer density and number of customers requiring manual reads, had changed relative to 2001 to justify the increase.

The CG expressed the same concerns regarding the need for 9.5 more meter reader equivalents in Calgary relative to 2001, where customer growth did not seem to justify the increase.

The CG submitted that ATCO should provide a schedule, for both North and South, showing the historical ratio of meter readers to customers and justify any increase requested on that basis rather than on the basis of theoretical assumptions. The CG considered that, in the absence of evidence to support the increases, the number of readers should be limited to the historical 2001 actual.

Calgary

Calgary noted that, in response to Direction 37, ATCO reduced staff complement by 70.5 positions in 2003 and 69.5 in 2004, an average reduction of only 53% from the 131 meter reader and related positions. Calgary also noted that, in response to Direction 35, ATCO reduced O&M costs by $2.287 million (2003) and $2.282 million (2004) to reflect the move from monthly meter reading. Calgary pointed out that, in response to BR-AG-53, ATCO stated that the annual cost per meter reader was $35,823 including fringe benefits. Calgary submitted that, given these various factors, a 70.5 reduction in positions should equate to a cost reduction of $2.535 million instead of $2.287 million (2003) and $2.571 million (69.5 x 35,823 x 1.0325) instead of $2.282 million (2004).

Given that historically, meters where read every second month in the South and every third month in the North, Calgary considered that there should be a full reduction to the South and a partial reduction to the North. Calgary noted that, in the GRA, ATCO stated that 131 meter readers and related positions would be added in November 2002, split as follows:

Table 3. Meter Readers and Related Positions

North		South		Total
Edmonton Business Unit	47	Calgary Business Units	27	69
North District Business Unit	37	South District Business Unit	20	57
Total North	84	Total South	47	131

Calgary stated that, as South meters were being read every other month to begin with, there should be a full reduction of the additional positions exclusive of growth. Allowing for growth in customers, two additional meter readers had been retained for 2003 and 2004 (1 each year). Calgary concluded therefore that there should be a reduction in the South of 46 (2003) and 45 (2004) readers, which equates to $1.648 million (2003) compared to ATCO's labour adjustment of $827,000, and $1.664 million (2004) compared to ATCO's adjustment of $860,000. Calgary also calculated that, the additional reduction required to O&M supplies was $155,000 (2003) and $156,000 (2004).

Calgary also noted that in response to Direction 40, ATCO provided a completely new study to determine the number of meter readers required, including the study by EWI Works, which was available at the time that ATCO witnesses were testifying on the request for monthly meter reading. Calgary stated that this was not disclosed even though it appeared to contradict the evidence that was provided in the hearing, and submitted that the full response to Directions 40 and 41 represented new data, including new theories, calculations, assumptions and evidence, which has never been tested before the Board. Calgary also considered ATCO's cost benefit analysis of AMR versus manual meter reading would also seem to be different based upon this untested information. Calgary expressed concern that ATCO has prepared a completely new analysis to support the required number of meter readers, and noted that the new study supports the addition of 21.5 (47 – 25.5) additional meter readers in the South even though the South has been on bi-monthly meter reading for years.

Board Findings

The Board notes Calgary's concern that the reduction in O&M test year forecasts, to recognize the reduction in meter readers, is understated given the average annual cost per meter reader referred to in BR-AG-53. The Board also notes ATCO's response indicating that the reduction in O&M forecasts was based on the average annual cost for a newly hired meter reader, and accepts ATCO's position that use of this average is more appropriate than the average cost cited in BR-AG-53, which represents an average based on the various lengths of service of all meter readers.

The Board also notes Calgary's submission that ATCO had overstated the number of meter readers required in the South, and that there should be a reduction of approximately 46 readers, representing the number of staff added in 2002 as indicated in response to CG-AG-80. The Board notes that Calgary calculated that the suggested decrease equates to an additional reduction in forecast labour costs of $821,000 (2003) and $804,000 (2004), and in forecast supplies costs of $155,000 (2003) and $156,000 (2004). However, the Board acknowledges ATCO's position that Calgary's calculation is based on an overstatement of 7 positions, and an incorrect average annual cost per meter reader as explained above. The Board also agrees with ATCO's submission that Calgary's calculation included supplies costs based on the unit rate for fringe benefits, in contrast to the calculation in the Compliance Filing, which is based on travel and uniform costs for meter readers.

The Board has also reviewed ATCO's response to the submission of the CG that, in the absence of support for the proposed increase in the number of meter readers, the number should be maintained at 2001 levels and Calgary's submission that ATCO had overstated the number of meter readers required in the South. The Board notes ATCO's position that significant change in circumstances between 1997 and 2003, and recent customer growth are major contributing factors to the increase in meter reader positions. However, while noting ATCO's submission that these factors make comparison to historical data, an inappropriate indicator of current or forecast requirements for the meter reading function, the Board shares the concern of interveners that ATCO has not provided sufficient evidence to demonstrate how these changes drive the increase in meter reading positions from historical levels.

The Board acknowledges ATCO's submission that the GRA test year forecasts took into consideration the various circumstances related to meter reading that have changed in recent years, justifying an increase in staff complement irrespective of the change in meter reading frequency. However, the Board shares intervener concerns that the study on which this submission is based contains information that has not been tested in this proceeding.

The Board agrees with the CG and Calgary that ATCO has not satisfactorily explained why the number of reader positions in the South should change significantly from historical levels given that the frequency of meter reading has not changed, and why a change from tri-monthly to bi-monthly reading in the North would result in a need for almost twice as many meter readers. In general, the Board is concerned that the information on forecast meter reader positions, presented in the Compliance Filing is inconsistent with related information filed in the GRA, and that those inconsistencies have not been adequately explained.

The Board considers that the number of meter reading positions required for bi-monthly reading should be determined using 2001 as a base, with the application of an escalation factor to recognize identified changes in circumstances. On this basis, the Board has determined that, for revenue requirement purposes, the number of meter reading positions can be confirmed at 50.5 in the South and revised from 81 to 66 in the North, representing a reduction of 15 positions from the number proposed by ATCO.

The Board is prepared to accept that the total in the South represents an increase of 9.5 positions from the 2001 total of 41 positions (AUMA/EDM-AG-46), which is a reasonable escalation to recognize growth, decreased hours of work and Occupational Health and Safety requirements. The Board considers that the same escalation factor of 9.5 positions is reasonable in the North, which would increase the number from the 2001 total of 39 to 48.5. The Board considers that increasing that number of positions to 66 is sufficient to recognize the shift to a bi-monthly frequency and the requirement for a larger number of meter readers for areas outside of Edmonton. The Board acknowledges ATCO's position that the larger geographical area and difference in customer density requires a larger number of meter readers for locations outside of Edmonton compared to locations outside of Calgary. However, the Board is prepared to accept that these factors could at best, justify the need for twice as many positions for outside-city locations in the North than in the South, in contrast to a differential of 3 times as many positions, which the Board considers that ATCO has failed to justify. Accordingly, the Board considers that the revenue requirement for the test years should be reduced to reflect the following number of meter reader positions:

Table 4. Revised Meter Reader Positions

	North	South
City	37	36
Outside City	29 *	14.5
Total	66	50.5

* Outside City for North reduced by 15 positions from 44 forecast in the Compliance Filing

Given the absence of persuasive support for the number of meter reading positions as proposed in the Compliance Filing, and absence of the opportunity to test the information in the EWI Works study, the Board directs ATCO, in the Second Compliance Filing, to adjust the revenue requirement forecast for the test years to reflect the costs associated with 50.5 (South) and 66 (North) meter readers for a bi-monthly program, as calculated above.

2.2.18 Direction 44 (One-Time Hearing Expense Adjustment)

In Direction 44, the Board directed ATCO to recover the one-time hearing expense in the amount of $3.4 million in the South and $2.9 million in the North effective January 1, 2004.

Views of the Applicant

ATCO reflected a one-time hearing expense of $6.3 million, and incorporated related impacts to Revenue and Necessary Working Capital. ATCO indicated that no further adjustments were necessary to equalize North and South balances. ATCO also stated that it had not proposed a rider for collection of these amounts, due to uncertainty with respect to a refund of deferred taxes, and since that refund exceeds the recovery of one-time hearing expense, assumed that the Board would prefer that the adjustments be combined.

Responding to a comment from Calgary, ATCO indicated that there was no direction to update the hearing cost reserve balances for 2002 actual data. ATCO explained that while there was a timing difference related to the payment of hearing costs for the Affiliate and Carbon Storage Transfer proceedings, the forecast provided by the Company was extremely close to the actual amounts paid. On that basis ATCO concluded that no further adjustment to the one-time hearing cost recovery was required other than the amounts directed by the Board to ensure equalization of North and South 2004 closing balances.

Views of Interested Parties

CG

The CG agreed with ATCO that the number of rate riders should be minimized and that the regulatory rider and deferred income tax refund should be combined.

Calgary

Calgary noted that ATCO was ordered to collect the one-time hearing expense through a rider commencing January 2004 and to adjust the opening balances to reflect the actual closing 2002 balance for the hearing cost reserve for ATCO Gas South. Calgary noted ATCO's acknowledgement that it had not complied with the order because of the possible change in the Board's decision regarding deferred income taxes. Calgary indicated that the information provided in response to Direction 44 did not appear to provide the actual closing balance for the 2002 hearing reserve but reflected 2003 amounts. Calgary also pointed out that the method of equalizing the North and South reserves did not appear to be provided.

Board Findings

In Decision 2003-072, the Board noted that the 2002 year end balance for hearing expense for the South was $1.8 million more than in the North, and directed ATCO to identify any further adjustments that might be necessary to ensure equalization of North/South 2004 closing balances. The Board notes that ATCO has provided information based on 2003 activities to demonstrate that no further action is required to equalize North/South balances. As indicated by ATCO, there was no requirement to update 2002 closing balances.

The Board agrees with ATCO and the CG that the one-time hearing expense and deferred tax refund should be combined. This matter is discussed in more detail in Section 2.2.30 of this Decision.

2.2.19 Direction 48 (Transfer from Capital to O&M Expense)

Direction 48 directed ATCO to adjust capital and O&M test year forecasts to reflect the re-instatement of $6.5 million to Administration and General Expense.

Views of the Applicant

ATCO referred to adjustments made pursuant to Direction 25, in complying with the Board's direction with respect to this matter.

ATCO indicated that the capitalization of administrative costs was treated as a supplies adjustment in the O&M forecast, noting that none of the labour amounts reflected in the GRA were adjusted for capitalization of administration costs. ATCO pointed out that labour costs for the Administration and General Function are increasing in 2003 and 2004, while supplies cost shows a fairly significant decrease in 2003 and 2004 from previous years. ATCO explained that the decrease was mainly due to the capitalization of administrative costs being treated as a supplies adjustment in the Application.

Views of Interested Parties

CG

Referring to a comment by ATCO that the $6.5 million adjustment should be treated as a supplies adjustment only, the CG pointed out that in the GRA, ATCO proposed that the types of administrative costs that should be incorporated in the capitalization adjustment included head office costs, legal and audit fees, corporate membership fees, bank charges, and labour and supply expenses related to administrative staff.

The CG submitted that ATCO should clarify how administrative staff labour costs were considered in the capitalization proposal and how those costs, if any, should be taken into account in the refiling of O&M and capital costs.

Board Findings

The Board agrees with the observation of the CG that information on pages 4.4-46 and 4.4-47(a) of the original GRA indicated that the capitalization adjustment included labour costs. However, having reviewed ATCO's position on this issue, the Board accepts ATCO's explanation that capitalization of administrative costs was treated as a supplies adjustment in the GRA. Accordingly, as indicated in the context of related adjustments in response to Direction 25, the Board is satisfied with ATCO's treatment of the reinstatement of the $6.5 million to Administration and General Expense.

2.2.20 Direction 50 (Billing Demand Provided to ATCO Pipelines)

In Direction 50, the Board directed ATCO to stipulate the 4-hour peak demand that ATCO Pipelines will use for system design and operational planning purposes and the 24-hour billing demand that ATCO Pipelines will use for cost allocation purposes.

Views of the Applicant

ATCO indicated that ATCO Pipelines is provided with estimated one-hour peak flow requirements for the gas distribution system on an annual basis.

ATCO indicated that the gas distribution system is designed on the basis of the forecast 1-hour peak flow requirements and does not use a 4-hour peak flow requirement. Based on a request by the Board, ATCO calculated the 4-hour peak flow requirements in the following table, noting that the Company normally expresses peak flow requirements in units of GJ/hour and no longer provides the 4-hour peak flow requirements to ATCO Pipelines.

Table 5. Peak Flow Requirements

TJ/day		
	2003 4 Hour	2004 4 hour
North	1208	1237
South	1072	1097

Views of Interested Parties

Calgary

Calgary noted that ATCO provided only one-hour demand information in response to the Direction, and that elsewhere in the Compliance Filing, used a billing demand for the South of 1,014 TJ per day (2003) and 1,024 TJ per day (2004). Calgary noted however, that ATCO provided no information as to how the numbers were developed. Calgary submitted that ATCO should be required to provide all underlying calculations including base use, temperature sensitive use and customer counts used in developing the demand numbers, and the same information with respect to 4-hour peak demand.

Board Findings

The Board acknowledges the information provided by ATCO, including the submission that the gas distribution system is designed on the basis of forecast 1-hour peak flow requirements, which is provided to ATCO Pipelines on an annual basis. As indicated in Decision 2003-072, there was an assumption that the placeholder for the transmission fee would be calculated based on billing demand established in accordance with the agreement with ATCO Pipelines, as filed in the Affiliate Hearing. The fact that the Company no longer provides the 4-hour peak flow requirements to ATCO Pipelines appears to be a departure from the terms of the original agreement between the business units. The Board notes that there was no discussion on this issue during the proceeding. The Board considers it unfortunate that interested parties were not afforded the opportunity to examine the suitability and reasonableness of the methodology by which data is provided to ATCO Pipelines. Nevertheless, the Board notes that the transmission charge placeholder amounts as set out in the Compliance Filing are based on forecast billing demand as determined in accordance with the original agreement using a 24 hour billing demand[4]. Accordingly, the Board is prepared to accept the billing demand forecasts used to determine the transmission charge placeholders, and is satisfied that any subsequent adjustment

[4] Compliance Filing "Other Board Directions" – Attachment 1, filed in response to un-numbered direction (Decision 2003-072, page 195)

to the related placeholder amounts will be based only on application of the approved unit rates as determined in the ATCO Pipelines Phase II.

2.2.21 Direction 51 (Reduction to I-Tek IT Services)

Direction 51 required that ATCO adjust the test year forecast for ATCO I-Tek IT Services to reflect the 7.5% reduction to rates approved in Decision 2002-069.[5]

Views of the Applicant

ATCO reduced the I-Tek O&M placeholder by $813,000 (2003) and $825,000 (2004) to reflect the 7.5% reduction, and the I-Tek capital placeholder by $368,000 (2003) and $235,000 (2004). ATCO also incorporated the impact on I-Tek charges, of various other Board directives.

ATCO indicated that the North production costs had been removed from the 2003/2004 GRA forecast based on the amounts included in that forecast, which included I-Tek charges in the amount of $220,000 in 2003, and $227,000 in 2004. ATCO found it difficult to understand Calgary's concern about the fact that these amounts appeared too high.

ATCO explained that there was no need to increase I-Tek O&M charges for the reversal of the capitalization adjustment, as the I-Tek forecast in the GRA was a gross amount, and the capitalized administrative costs were handled as a lump sum adjustment rather than as a reduction to the specific O&M costs categories.

Views of Interested Parties

Calgary

Calgary considered it unclear how ATCO determined the amount of the I-Tek costs capitalized arising from the reversal of capitalized administrative costs, and why the O&M portion of I-Tek IT Service costs was not increased by a similar amount for purposes of determining the base to which the 7.5% should be applied. Referring to ATCO's response to Direction 4, Calgary considered that the amount related to Beaverhill Lake/Fort Saskatchewan appeared high relative to the amount related to meter reading.

Board Findings

The Board has reviewed ATCO's submission with respect to the matters raised by Calgary, and agrees that no further reduction is required to the ATCO-I Tek forecast, noting that capitalized costs were handled as a lump-sum deduction to the total O&M forecast in the GRA.

2.2.22 Direction 53 (Head Office Rental)

In Direction 53, the Board required that ATCO confirm the head office rental rates and the calculation of the test year forecast amounts included for sublease costs in ATCO's submissions.

Views of the Applicant

ATCO provided the derivation of the $1.272 million for Edmonton head office rent included in the forecasts for each test year, using the approved rate of $13.58 per square foot.

[5] 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

ATCO indicated that determination of the net square footage for the ATCO Centre in Edmonton between North and South was based on "Total Office Establishment" as indicated in the response to CAL-AG-102(v).

Regarding the non-utility rent adjustment related to the ATCO/CU corporate charges, ATCO referred to the Company's November 8, 2002 letter regarding adjustments made to the GRA forecasts to reflect the impact of Decisions 2002-069 and 2002-072,[6] which included a reduction to ATCO/CU corporate charges related to non-utility rent.

Views of Interested Parties

Calgary

Calgary questioned why a slightly higher amount was allocated to the South, and noted that the filing did not indicate how the non-utility portion had been reflected in the ATCO/CU charges which was part of the Board's concern as expressed on page 203 of Decision 2003-072, where it stated that the "regulated utilities in the ATCO Group should not be permitted to do indirectly what they could not do directly".

Board Findings

The Board has reviewed ATCO's submission with respect to the matters raised by Calgary, and accepts ATCO's explanation that the North/South allocation reflects the relative square footage as indicated in the response to CAL-AG-102(v), and that non-utility rent has already been addressed in the GRA. The Board is satisfied with ATCO's response to Direction 53.

2.2.23 Direction 54 (Allocation of Corporate Costs)

The Board directed ATCO to exclude forecast energy costs in the determination of the allocation of corporate charges and use the reduced amounts to allocate corporate costs for the test years.

Views of the Applicant

ATCO provided details of the reduction in costs allocated to the Company after exclusion of forecast energy costs. The total reduction was $865,000 (2003) and $893,000 (2004), including the impact on the corporate aircraft allocation.

In response to questions from the Board, ATCO confirmed that the energy costs removed from revenues were all of a flow-through nature and excluded fuel and energy costs consumed in the operation of vehicles, aircraft etc.

With respect to comments by Calgary, ATCO indicated that the amounts shown in the response to the Direction included an additional $321.9 million of flow-through energy costs from revenues related to ATCO Midstream gas purchases for third parties, Alberta Power (2000) coal costs, and ATCO Power tolling nature gas costs and ATCO Frontec fuel expenses.

ATCO pointed out that Calgary's comments regarding the adjustment to the ATCO/CU Corporate charges related to rent had been addressed in the response to Direction 53 above, and

[6] Decision 2002-072 – ATCO Gas, A Division of ATCO Gas and Pipelines Ltd., Transfer of Carbon Storage Facilities, dated July 30, 2002

explained that this adjustment had been made in the November 8, 2002 update to the GRA, and as such, no further adjustment was required.

In response to the CG's comments, ATCO stated that the comments of the Board on this matter in Decision 2003-072 appear to express the view that flow-through energy costs did not require the same attention from the corporate office as other components within the corporate cost allocation methodology. ATCO submitted that fairness and reasonableness dictated that a change in the allocation methodology must be applied consistently to all companies within the ATCO Group.

Views of Interested Parties

CG

In the CG's view, the purpose of removing energy costs from the ATCO Utilities is to reflect the sale of the retail functions of ATCO Gas and ATCO Electric to Direct Energy. However, the CG noted that ATCO appeared to have gone beyond this narrow purpose to change the entire methodology of allocation of corporate costs to ATCO/CU affiliates. The CG submitted that such a change had not been tested and should not be allowed as part of a compliance filing. The CG stated that ATCO should be directed to remove the energy costs for ATCO Gas and ATCO Electric only for purposes of allocating corporate charges.

Calgary

Calgary questioned why the amounts shown in ATCO's adjustment did not agree with the information in the response to CAL-AG-145(a), and indicated that details were required of the other energy costs reflected, particularly since some of those costs, such as the $321 million related to Midstream, were apparently not included in the calculations in CAL.AG-145(a).

Calgary also noted that there did not appear to have been any change in the amount of the ATCO/CU costs being allocated, which would again indicate that perhaps costs, not approved for direct collection, were being collected indirectly.

Board Findings

The Board is not persuaded that ATCO has responded appropriately to Direction 54. In Decision 2003-072, the Board expressed the view that inclusion of volatile commodity prices tends to skew results over time, and that fluctuations in commodity prices do not influence the level of corporate overhead costs. The Board concluded that purchasing energy from the marketplace for sale to customers, on a flow-through basis, eliminates the need to direct attention to matters such as contract management, contract credit risk and contract uncertainty with respect to energy costs. The Board considers that Direction 54 clearly indicated that energy costs flowed through to customers were those that should be removed from the allocation methodology, and that conclusion was based on evidence on the record during the GRA. The Board agrees with the CG that ATCO appears to have gone beyond this narrow purpose in changing the entire methodology of allocation of corporate costs to ATCO/CU affiliates, and agrees with comments of the CG and Calgary that the removal of costs from the other ATCO companies had not been tested.

The Board therefore considers that a reduction in the amounts identified in response to Cal-AG-145(a) would be appropriate in contrast to the amounts identified in the Compliance Filing.

Accordingly, with respect to the allocation of corporate costs, the Board directs ATCO, in the Second Compliance Filing, to reflect a reduction of $957,000 (2003) and $995,000 (2004) as identified in response to CAL-AG-145(a), instead of the reductions of $865,000 (2003) and $893,000 (2004) proposed in the Compliance Filing. The Board also directs ATCO to reflect the effect of this revision on forecasts that would be impacted by the allocation of corporate charges.

2.2.24 Direction 55 (Adjustment to Fringe Benefits)

In Direction 55, the Board directed ATCO to revise the fringe benefit forecasts for the test years to reflect any reductions in FTEs required as a result of Board findings in Decision 2003-072, with respect to staffing levels.

Views of the Applicant

ATCO provided details supporting the adjustments made to fringe benefit forecasts. In response to questions from the Board, ATCO indicated that very few fringe benefits are determined on the basis of an employee's salary, the significant driver for fringe benefit costs being the number of employees. For this reason, ATCO did not incorporate the reduction in the wage increase as per Direction 35 into the calculation of the reduction in fringe benefit costs, to avoid overstatement of any reduction that the Company would be able to realize.

With respect to the allocation of the fringe benefit adjustment, the allocation was determined consistent with the Company's Shared Service policy. ATCO considered that adherence to the policy was the appropriate approach, and expressed some surprise that Calgary would prefer that the Company deviate from the policy and use a different allocation method.

ATCO pointed out that pension and other post employment expense is recognized on a cash basis, and accordingly, the expense relates to payments made with respect to retirees, and not current employees. For this reason, ATCO's pension and other post employment expense did not alter with adjustments related to current labour costs.

Views of Interested Parties

CG

The CG noted the following statement by ATCO in response to Direction 55:

> ATCO Gas has excluded the amounts related to pension and other post employment benefits from the determination of the rate due to the fact that these payments in the test years do not vary with the current staffing levels of ATCO Gas. They represent payments based on current retirees.

The CG questioned ATCO's statement in that it implied that there were no pension costs related to current employees included in fringe benefits. The CG submitted that ATCO should clarify this statement and demonstrate why pension expense should not be included in the fringe benefit rate.

Calgary

Calgary noted that no adjustment was made for the change in inflation from 4% to 3.25%. Calgary also took issue with the allocation of the adjustment to North and South, and calculated that costs of $57,000 in each test year would shift from South to North, if the allocation were determined based on each specific adjustment as opposed to ATCO's lump sum allocation. Calgary submitted that the standalone calculation was the preferred methodology as it recognized the specific North/South adjustments.

Board Findings

The Board accepts ATCO's explanation that pension expense payments were not factored into the reduction to fringe benefit forecasts, since pension payments, which are on a cash basis did not include payments related to current employees.

The Board acknowledges ATCO's explanation that very few fringe benefits are determined on the basis of an employee's salary, the significant driver for fringe benefit costs being the number of employees. On that basis, the Board accepts ATCO's position that application of the inflation change to fringe benefit costs would result in overstatement of the required reduction.

With respect to Calgary's concern regarding the allocation of the adjustment, the Board notes that the difference in calculation methodology is not material and is prepared to accept ATCO's position that the allocation of the adjustment is consistent with Company policy.

2.2.25 Direction 59 (Depreciation Adjustment)

Direction 59 required that ATCO revise deprecation schedules to reflect the effect of adjustments required as a result of findings in other sections of Decision 2003-072.

Views of the Applicant

ATCO provided details supporting the adjustments made to test year deprecation expense incorporating the impact of all Board directives affecting capital expenditures.

ATCO pointed out that the response to Direction 29 summarized the adjustments to the 2003 opening net plant in service. Due to the fact that these adjustments related to opening net plant in service, they included removal costs, contributions, accumulated depreciation and accumulated amortization adjustments. In contrast, ATCO indicated that the 2002 depreciable base provided in Direction 59 related only to original cost, and was therefore not directly comparable to amounts shown in Direction 29. ATCO explained that 2002 CCA adjustments would also not be impacted by adjustments related to accumulated depreciation and accumulated amortization, and that not all capital expenditures are treated as additions to the CCA pools.

ATCO explained that, while the opening Property, Plant and Equipment balance in 2003 had been increased by $1.337 million, as a result of the adjustments discussed in response to Direction 29, the 2002 depreciable base had only been increased by $985,000. ATCO indicated that the difference of $352,000 was due to the change in 2002 work-in-progress and non-utility assets compared to forecast as indicated in Exhibit 14-10A.

ATCO noted that the change in retirements related to the reduction in removal costs for meter recalls. To maintain the relationship between the forecast retirements and removal costs, retirements were reduced for the reduction in removal costs related to meter recalls.

ATCO also explained that depreciation expense capitalized was based on a percentage of the transportation and heavy work equipment depreciation expense. Changes to that depreciation expense would therefore also result in a change in the amount of depreciation expense capitalized.

Views of Interested Parties

Calgary

Calgary stated that it was not clear that the adjustments made accurately reflected the impact of changes resulting from other Directions. By way of example, Calgary pointed out that, while the South 2002 depreciable base had increased by $985,000, the adjustments in Directions 28 and 29 did not equal that amount nor did the adjustments to the CCA schedules. Calgary also noted that the change in capital additions did not agree with the capital addition adjustment summary, to the extent that retirements changed, and depreciation capitalized changed by $5,000 for 2003 with no explanation provided in either case. On the whole, Calgary considered the reduction in depreciation expense of $186,000 (2003) and $207,000 (2004) to be low.

Board Findings

Having reviewed the detailed explanation provided by ATCO in response to the differences as highlighted by Calgary, the Board is satisfied that the revisions to depreciation proposed in response to this direction are reasonable, and accepts the adjustments as filed.

2.2.26 Direction 60 (Capitalized Costs Expensed for Tax Purposes)

In Direction 60, ATCO was directed to advise the Board on the process adopted to identify in the accounting records, those costs capitalized, but considered by the Company to be ordinarily deductible and being deducted for tax purposes in the year incurred.

Views of the Applicant

ATCO provided an explanation of the accounting process for capitalization and related deductions in response to the Board direction, noting that all of the indirect costs charged by the Company are deducted for tax purposes in the year incurred. There is no further segregation of these costs required to determine the deduction for income tax purposes.

ATCO stated therefore that Calgary is correct in suggesting that there does not seem to be any attempt to reconcile the indirect cost capitalized with the adjustment for O&M expense, because no reconciliation is required. ATCO deducts the amount of indirect costs charged to its capital work orders.

Regarding Calgary's comment that there is no easy way to identify the costs capitalized for book purposes and deductible for income tax purposes in the GRA filing, ATCO submitted that this issue was canvassed extensively in the GRA proceeding, and in Decision 2003-072 (page 230) the Board approved the forecast for indirect costs deducted for income tax purposes.

Views of Interested Parties

Calgary

Calgary considered that it was not clear how ATCO identified indirect costs, noting the following statement by ATCO in response to the Direction:

> In the accounting records of ATCO Gas, indirect capital costs are charged to specific work orders, which pool the support costs related to the various types of capital work. The indirect costs get allocated to specific capital project work orders and are identified in those work orders as support costs.

Calgary submitted that there did not appear to be any attempt to reconcile the indirect cost capitalized with the adjustment to O&M expense, and that based on this response, there was no easy way to identify the costs capitalized for book purposes and deductible for income tax purposes in the GRA filing.

Board Findings

The Board agrees with ATCO that in Decision 2003-072, the Board was satisfied that ATCO had reflected the appropriate deductions in determination of income tax expense, and that there was no requirement for a reconciliation of indirect costs capitalized with adjustments to O&M Expense.

The Board acknowledges ATCO's explanation of the accounting process for capitalization and related deductions provided in response to the Board direction.

2.2.27 Direction 61 (Large Corporation Tax Capital Deduction)

In Direction 61, the Board directed ATCO to demonstrate the extent to which Large Corporation Tax (LCT) credit benefits are shared among all affiliates in the same manner that corporate costs are allocated.

Views of the Applicant

ATCO confirmed that ATCO Ltd. and Canadian Utilities Limited (CU) recognize the LCT capital deduction and that there is no allocation of the deduction to any subsidiaries of CU. ATCO disagreed with the interpretation of the Board's direction by Calgary and the CG, pointing out that their view on the matter clearly demonstrates that they were unable to support the interpretation from the Decision.

Views of Interested Parties

CG

The CG noted that, in response to the Direction, ATCO indicated that the LCT credit is not shared among the affiliates of ATCO Ltd and CU, but is assumed entirely by these two companies. The CG submitted that, since the ATCO Ltd and CU corporate costs are allocated among the affiliates, it is also appropriate to allocate the LCT credit among the affiliates. The CG stated that ATCO should be directed accordingly.

Calgary

Calgary submitted that ATCO had not complied with Direction 61, which Calgary understood was to allocate the capital deduction to the regulated utilities the same manner as the ATCO/CU charges were allocated. Calgary also pointed out that in 2004, the deduction is to increase to $50 million.

Board Findings

The Board is satisfied with ATCO's interpretation of Decision 2003-072 as it relates to the recognition of Large Corporation Tax (LCT) credit benefits, and acknowledges ATCO's submission that the credit is not shared among the affiliates of ATCO Ltd and CU. The Board considers that interveners may have misconstrued the intent of Decision 2003-072 with respect to this issue. Decision 2003-072 stated that there was no requirement to recognize the LCT credit, recognizing the historical treatment and minimal impact on ATCO Gas. In Decision 2003-072, The Board considered ATCO's treatment of the LCT credit appropriate, and directed ATCO to demonstrate the extent to which LCT credit benefits (received by the ATCO Group) are shared among all affiliates. In this regard, the Board notes ATCO's submission that other cost savings, not recognized in the allocation process, "far outweigh(s) the potential reduction to the ATCO Gas LCT if the capital deduction were to be allocated on the basis of the corporate cost allocation".

2.2.28 Direction 62 (Adjustment to Large Corporation Tax Rate)

In Direction 62, the Board directed ATCO to revise the calculation of LCT for 2004 to reflect a capital tax rate of 0.200%.

Views of the Applicant

ATCO revised the calculation of LCT for 2004 to reflect a capital tax rate of 0.200%, and indicated that the LCT calculation was updated for changes to the balance sheet, as evidenced by a comparison of the individual line items on the relevant schedules in the Compliance Filing. ATCO was therefore at a loss to understand Calgary's concern with the calculation.

Views of Interested Parties

Calgary

Calgary submitted that the changes in taxable capital did not appear to reflect the reduction in the total liabilities and equity shown on Schedule 7.3-H nor the change in capital assets for the South as a result of other Directions in the Decision.

Board Findings

The Board considers that ATCO has appropriately reflected a capital tax rate of 0.200% as directed in Decision 2003-072.

2.2.29 Direction 64 (Deferral Account for Large Corporation Tax Rates)

Direction 64 required that ATCO propose a deferral account to account for any change in Federal Government intentions with respect to LCT rates in the test period.

Views of the Applicant

ATCO indicated that any differences between enacted LCT rates in the test years and those used in the Compliance Filing would be addressed at the next GRA. ATCO stated that the amount of the deferral would be based on the approved GRA forecasts for those years.

In response to Calgary's concern, ATCO indicated that the impact of any differences between the enacted LCT rates in the test years and the rates used in the Compliance Filing would be deferred, and that determination of the deferral would be based on the approved GRA forecast for 2003 and 2004. ATCO proposed that the deferral account would be addressed at the next GRA, which ATCO considered consistent with Calgary's understanding as set out in their comments.

Views of Interested Parties

Calgary

Calgary noted that, while directed to provide the mechanics of a deferral account in the event that the proposed LCT were not pronounced, ATCO had not provided a mechanism, and in fact addressed the wrong test period as evidenced by stating that the issue would be addressed at the next GRA.

Calgary submitted that the differences if any, in the 2003/2004 approved and actual tax rates should be deferred. The next GRA would not be relevant other than for finalization of the deferred account balance to be brought forward.

Board Findings

The Board is satisfied with ATCO's proposal to address any differences in 2003/2004 approved and actual tax rates in a deferral account at the next GRA. The Board's direction required that ATCO file a proposal in this regard.

2.2.30 Income Tax Directives

In the GRA, ATCO proposed a one-time refund to customers of Federal Deferred Income Tax. In the Compliance Filing, ATCO updated the Deferred Income Tax balance to reflect 2004 enacted income tax rates, and provided details of revisions to capital cost allowance balances to incorporate the effect of the directions in Decision 2003-072.

Views of the Applicant

In the Compliance Filing, ATCO indicated that Decision 2003-072 was silent on the Company's proposal for a one-time refund of deferred income tax. Accordingly, ATCO removed the refund from the 2003 forecast, and proposed the combination of the one-time hearing cost recovery and income tax deferral in a net refund to customers in 2004, by way of a rider. ATCO also provided information on the impact on CCA calculations and indirect charges to reflect the impact of other Board directions.

ATCO provided the following table to demonstrate that the proposed refund amounts quoted by AUMA/EDM were based on the original GRA filing, and were not consistent with the amount proposed in the Compliance Filing:

Table 6. Proposed Refund Amounts

03/04 Shortfalls ($000's)	North	South	Reference
2003 GRA Shortfall	12,145	6,884	See Direction 24
2004 GRA Shortfall	13,502	8,272	See Direction 24
One Time Refund	(15,091)	(3,029)	Income Tax Directives Summary
Net Shortfall	10,556	12,127	

ATCO proposed to develop a rider to recover the net shortfall from North and South customers over the year 2004, and that the rider would expire on January 1, 2005, at which time new interim rates would have to be put in place. ATCO believed that this approach would be consistent with AUMA/EDM's recommendation.

In response to questions from Calgary, ATCO indicated that the change in non-utility depreciation and CCA in 2003 resulted from updating the 2002 net property plant and equipment to reflect actual data. ATCO explained that the change in indirect costs related to the capitalized administrative charges being charged to O&M and the indirect deduction for I-Tek IT charges as a result of Direction 51. ATCO discovered an inconsistency in the allocation of the capitalized administrative charges between North and South in the original GRA forecast when preparing the Compliance Filing. ATCO indicated that the capitalized administrative charges had been removed from the indirect costs consistent with how they were included in the original forecasts, and also provided a reconciliation of the change in capital expenditures to the change in the capital cost additions for the South.

ATCO discovered a small error in the change in CCA additions, but given the immateriality of the error, and the fact customers would not be negatively impacted, ATCO proposed to correct the error at the time of its Second Compliance Filing.

While in agreement with the CG that a final reconciliation of the deferred income tax balance being refunded in the North would be required, ATCO noted that the reconciliation had not been completed and represented a significant undertaking. ATCO did not believe however, that the proposed refund should be delayed, and another separate regulatory process introduced, in order to review the reconciliation. ATCO committed to providing the reconciliation in the next GRA, and considered this the most cost effective manner of dealing with this matter.

ATCO reflected the opening balance related to the North deferred income tax available for refund in the 2004 No Cost Capital calculation, noting that 2004 prior year end balance for No Cost Capital in the North was $12,151, based on the 2003 closing No Cost Capital, including Federal deferred income tax.

ATCO pointed out that deferred income taxes, related to items for which income tax continues to be deferred, has never been included in No Cost Capital and there has never been a direction from the Board in this regard.

ATCO indicated that it used the income tax rate (33.5%) currently enacted for 2004 in determination of the deferred income tax refund amount, and that any difference between this rate and the actual enacted rate for 2004 would be deferred. ATCO believed that this should address the concerns of the CG on this matter.

Views of Interested Parties

AUMA/EDM

AUMA/EDM noted that, while the Board accepted ATCO's proposal to adopt a common methodology for North and South acknowledging intervener support for the proposal, explicit approval appears to have been overlooked in Decision 2003-072. Given that no party objected to the proposal, AUMA/EDM submitted that the Board should explicitly approve the refund in its decision on this Compliance Filing.

Referring to the refunds of $12.789 million (North) and $1.386 million (South) proposed by ATCO for 2003 in the GRA, AUMA/EDM submitted that those refunds should be directly applied or offset against any remaining shortfalls for 2003 and that any balance should be applied against 2004 shortfalls. AUMA/EDM considered that this was the intent of the original application. AUMA/EDM submitted that it would be inappropriate to develop a rider to refund these amounts to customers during 2004 as the deferred taxes related to prior periods and should be refunded as soon as possible to mitigate intergenerational inequities.

CG

The CG pointed out that, in response to BR.AG-103, ATCO provided a high level calculation of the deferred income tax balance for the North. In that response, ATCO proposed that a review of the Federal deferred income tax should occur once the final amount was known after the 2002 income tax filing had been completed. The CG submitted that ATCO should be directed to provide a final reconciliation of federal deferred taxes for the North along with a proposal for disposition of the deferred tax balances for North and South.

The CG noted that in Schedule 3.2-I for the North, the deferred income tax balance is shown at a mid year balance of $12.189 million for 2003, but ATCO had not reflected a no-cost capital opening balance with respect to this item for 2004. The CG considered that the reality is that this balance has not yet been paid out and should therefore be reflected in the no cost capital opening balance for 2004. The CG submitted that ATCO should be directed accordingly.

The CG noted that the deferred income tax balance for the South of $4.275 million had not been reflected as a component of no cost capital in Schedule 3.2-P, and that ATCO should explain why this amount should not be reflected in no cost capital for 2003 and 2004.

The CG pointed out that, in its income tax directives summary, ATCO used an enacted after tax rate of 66.5% to gross up the refund amount. The CG submitted that ATCO should confirm that the tax gross up would indeed be based on tax rates prevailing in the year in which the refund occurred as opposed to any prior tax year.

Calgary

Calgary expressed concern that a number of changes in the income tax calculations for the South in the test years had not been explained, and cited the following examples:

- the change in non-utility depreciation for 2003;
- the change in non-utility CCA in 2003;

- the change in indirect costs of $2.995 million; and
- the change (increase) of $104,000 in capital cost additions in 2003 compared to the $4.416 million decrease in 2004.

Board Findings

The Board notes the AUMA's submission that the refunds proposed by ATCO for 2003 in the GRA, should be directly applied or offset against shortfalls for 2003 and 2004 as applicable. The Board has reviewed ATCO's response to the AUMA concerns, and is satisfied that the revisions from the deferred tax refund and shortfall balances as reflected in the GRA, appear appropriately determined, and agrees that ATCO's proposal for dealing with the deferred tax balance is consistent with the position held by the AUMA.

With respect to concerns raised about deferred tax refunds in relation to No-Cost Capital, the Board considers that ATCO has appropriately reflected the impact of the proposed deferred tax refund on No-Cost Capital, and agrees with ATCO that inclusion of ongoing deferred tax balances in No-Cost Capital has never been an issue. The Board also accepts the income tax rate used to determine the deferred tax refund amount.

While not specifically addressed in Decision 2003-072, the Board can confirm that the treatment proposed in the GRA for dealing with the deferred tax refund is considered reasonable, and accepts ATCO's proposal for refund of the deferred tax balance by rate rider in 2004. The Board acknowledges that there is merit in the CG recommendation for a final reconciliation of deferred taxes, and notes ATCO's commitment to conduct a review and reconciliation of the Federal deferred income tax at the next GRA.

Acknowledging ATCO's submission that the reconciliation could be a significant undertaking, that could have a negative impact on timely refund to customers, the Board directs ATCO to conduct a review and reconciliation of the deferred income tax balance at the next GRA.

The Board notes ATCO's proposal to develop a rider to recover the net shortfall from North and South customers over the year 2004. While recognizing that the amount of the shortfall will be impacted by the outcome of various benchmarking processes and other proceedings that will result in revisions to the revenue requirement for the test years, the Board considers that collection of the shortfall prior to ultimate finalization of the revenue requirement may serve to reduce the extent of any possible future rate shock to customers.

As discussed in connection with Direction 44, the Board agrees with ATCO's proposal for a combination of the deferred tax refund and one-time hearing expense recovery, and accepts ATCO's proposal to offset this combined amount against the revenue requirement shortfall for the test years. Accordingly, the Board directs ATCO, in the Second Compliance Filing, to propose a methodology for collection of the net shortfall by rate rider. The Board recognizes that the net shortfall amounts of $10.556 million (North) and $12.127 million (South) identified in the Compliance Filing, will be subject to revision after application of the directions in this Decision, and ATCO's proposal[7] to apply the ATCO Gas South portion of proceeds related to the Calgary Stores Block sale to the 2003/2004 GRA shortfall.

[7] ATCO Letter dated March 5, 2004

Having reviewed ATCO's response to the concerns raised by Calgary with respect to adjustments in income tax calculations for the South, the Board accepts the adjustments as proposed in the Compliance Filing. In relation to the adjustments, the Board notes the minor error in CCA additions highlighted by ATCO, and agrees with the proposal to adjust in the Second Compliance Filing.

Accordingly, the Board directs ATCO, in the Second Compliance Filing, to rectify the identified error in CCA additions.

2.2.31 Debt Cost

In Decision 2003-072[8], the Board concluded that unless there is evidence that a utility is being imprudent in terms of its financing plan, the utility should be allowed to take its own course of action with regard to its ongoing financial plan, including an ability to choose the appropriate term of debt for all new debt issues.

Views of the Applicant

In the GRA, ATCO forecast a mid-year cost rate on long-term debt of 8.005% (2003) and 7.850% (2004), representing the embedded cost of the Company's long-term debt based on forecast mid-year balances of $521.129 million (2003) and $586.351 million (2004). With regard to future financings, ATCO forecast requirements of $100 million (2003) and $85 million (2004), indicating that the financing requirements would be met with 20-year debenture issues in December 2003 and 2004 at a coupon rate of 7%. ATCO submitted that there were also scheduled financing retirements of a $22.2 million (7.25% at maturity) debenture in 2003 and a $31.5 million (8.73% at maturity) debenture in 2004.

ATCO did not agree that the matters identified by AUMA/EDM represented clerical errors, and submitted that the matters raised were addressed in the Decision and that AUMA/EDM's request constituted a Review and Variance of the Decision.

ATCO pointed out that Decision 2003-072 summarized the various positions of interested parties with respect to both the long and short-term debt rates,[9] which would provide a strong indication that the Board considered those positions in its deliberations. ATCO referred to the following excerpt from Decision 2003-072:[10]

> The Board notes parties' concerns that ATCO's forecasts of long-term debt **costs** differ from actuals. At the same time, the Board agrees with ATCO that the Company's financing requirements do change over time. The Board also agrees that during some periods those changes will result in a higher interest expense than forecast, while in other periods the changes will result in a lower interest expense than forecast. In this regard, debt **costs** are similar to other components of the forecast revenue requirement in that forecasting error is always prevalent. However, the Board considers that over time, forecasting differences or errors should potentially balance out. [Emphasis added]

[8] Page 147
[9] Decision 2003-072, pp. 142-146
[10] Decision 2003-072, p. 146

In ATCO's view, it was clear that the Board was considering the Company's debt costs in the above statements, not solely the term of long term financing. ATCO considered that Decision 2003-072 approved both the long and short-term financing rates of the Company as filed, and that AUMA/EDM should address their concerns through a Review and Variance application if they believed that the Board should reconsider the Decision for these matters.

Views of Interested Parties

AUMA/EDM

AUMA/EDM noted that, in Decision 2003-072, the Board referred to past forecasting errors and addressed issues relating to the appropriate term of the debt, an issue raised by AUMA/EDM in Argument. AUMA/EDM submitted however, that since the Board did not address or express any conclusions regarding the appropriate cost rate for either short or long term debt, it cannot be assumed that ATCO's request for approval of its long term financing requirement has been approved.

AUMA/EDM referred to substantial information provided in Argument regarding debenture rates prevailing as of the date of the Application, with specific reference to the 6.145% debt issue by ATCO approved by the Board on March 18, 2003. AUMA/EDM submitted however, that this matter appears to have been overlooked in Decision 2003-072, and that the Board has not approved a cost rate for this long term financing.

By way of comparison, AUMA/EDM referred to ATCO Electric Ltd. (AE) Decision 2003-071[11] for the same test years, which contained the following statement:

> The Board considers that the actual cost of the 15-year debt issue in late 2002 being 6.145% is a reasonable benchmark for AE's debt issue cost in 2003 and 2004.

AUMA/EDM pointed out that the Board went on to approve AE's long-term debt rate at 6.145% for both 2003 and 2004, and noted that the debt issue referred to by the Board formed part of what appears to be a $150 million debenture issue (referred to as series 25 and 26) by CU Inc. in November 2002.

AUMA/EDM stated that there was also no approval, in Decision 2003-072, of the cost rate for ATCO's short-term borrowing for 2003.

AUMA argued in the GRA that the CU Consolidated Financial Statements for 2002 indicated that short-term borrowings were obtained at an interest rate of 3.76%, and submitted that the short-term debt approved by the Board, in a forecast amount of $23.4 million (2003 mid-year), should be capped at 3.8% to reflect 2002 actual results. AUMA/EDM considered this appropriate given that no specific support was provided by ATCO for the forecast rate of 4.5%.

AUMA/EDM submitted that failure to address the cost rate for long-term debt constitutes a clerical error in Decision 2003-072, which should be corrected by setting the cost rate for ATCO's new long-term debt at 6.145% for both test years, to be consistent with Decision 2003-071 for AE.

[11] Decision 2003-071 – ATCO Electric Ltd., 2003-2004 General Tariff Application, Rate Case Deferrals Application, 2001 Deferral Application, dated October 2, 2003

Board Findings

The Board notes AUMA/EDM's argument that there was no explicit conclusion expressed in Decision 2003-072 regarding the appropriate cost rate for short and long-term debt. While the Board did not formally approve ATCO's debt cost rates, as ATCO correctly states, the Debt Cost section in Decision 2003-072[12] incorporated a detailed discussion and summarization of the various positions of the interested parties with respect to both long and short term debt rates.

The Board considered the positions of the parties and related evidence presented in the proceedings and in essence implicitly approved ATCO's forecast long and short-term debt cost rates in Decision 2003-072. However, acknowledging that the determination could have been set out more explicitly in the Decision, the Board approves ATCO's forecast long and short-term debt cost rates for the test period 2003-2004.

3 PROCESS FOR FUTURE COMPLIANCE FILINGS

The Board notes that ATCO has identified amounts of $90.742 million (2003) and $93.204 million (2004) included in the revenue requirement as placeholders, and recognizes that the 2003/2004 revenue requirement will be impacted by the outcome of various ongoing proceedings and benchmarking processes to address the related matters. The Board also acknowledges that further adjustments to the revenue requirement will be necessary to fully reflect the impact of the Retail Sale and related unbundling proceedings. Decision 2003-108 (the Unbundling Decision), identified the impact of the unbundling process on the 2003/2004 revenue requirement, and acknowledged that ATCO still has to identify those revenue requirement adjustments that will be required on closing of the Retail Sale.[13]

However, the Board considers that establishing a process at this time to adjust the revenue requirement to incorporate the directions in this Decision and facilitate timely collection of the net shortfall, as indicated in Section 2.2.30 of this Decision, would help reduce potential complexities in subsequent processes required to true up placeholder amounts and reflect the impact of the Retail Sale and unbundling.

Accordingly, the Board directs ATCO, within 21 days from the date of issue of this Decision, to submit the Second Compliance Filing to adjust the revenue requirement for the test years to reflect the impact of the directions in this Decision. The Board directs ATCO, in the Second Compliance Filing, to incorporate an update to the calculation of the revenue shortfall for the test years, and propose a methodology for collection of the net shortfall.

4 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.

[12] Section 3.6
[13] Decision 2003-108, p. 53 and 54

1. Accordingly, the Board directs ATCO to rectify the adjustment to the contributions for Rural Main Extensions and Services in the Second Compliance Filing.. 7
2. Accordingly, the Board directs ATCO to rectify the North/South allocation of the reduction to Urban Mains Replacements in the Second Compliance Filing. 8
3. Accordingly, the Board directs ATCO, in the Second Compliance Filing, to revise the revenue requirement to reflect contributions for Red Deer residential service lines in the original forecast amounts of $705,000 (2003) and $830,000 (2004). 9
4. Accordingly, in the Second Compliance Filing, the Board directs ATCO to reflect the working capital impact of the adjustment to O&M expense for the test years to recognize the impact of MRRP revisions on costs associated with meter recall activities. The Board also directs ATCO, at the next GRA, to incorporate an update on the status and related costs of the MRRP, complete with supporting information... 16
5. Accordingly, the Board directs ATCO, in the Second Compliance Filing, to adjust the capitalized meter refurbishment program, to exclude the costs associated with the activities identified above.. 19
6. The Board agrees with ATCO that there is no need to file a copy of the capitalization policy prior to approval of the filing, recognizing that Decision 2003-072 did not specify this requirement, on the assumption that ATCO will revise its policy to reflect the revisions identified above. The Board further directs ATCO to file the revised policy upon completion. 19
7. Accordingly, in the Second Compliance Filing, the Board directs ATCO to provide an explanation of the reasons why the Inter Company Expense totals (Updated Lead/Lag Schedules - page 6 of 7 of the Compliance Filing) differ from the non-regulated affiliate expense totals included on Table 7.2-2 of the GRA. The Board also directs ATCO to explain why the total of ATCO Centre Rent included on the schedule of Inter Company Expense totals (page 6 of 7) exceeds the rent expense referred to in the response to Direction 53...... 22
8. Given the absence of persuasive support for the number of meter reading positions as proposed in the Compliance Filing, and absence of the opportunity to test the information in the EWI Works study, the Board directs ATCO, in the Second Compliance Filing, to adjust the revenue requirement forecast for the test years to reflect the costs associated with 50.5 (South) and 66 (North) meter readers for a bi-monthly program, as calculated above. 31
9. Accordingly, with respect to the allocation of corporate costs, the Board directs ATCO, in the Second Compliance Filing, to reflect a reduction of $957,000 (2003) and $995,000 (2004) as identified in response to CAL-AG-145(a), instead of the reductions of $865,000 (2003) and $893,000 (2004) proposed in the Compliance Filing. The Board also directs ATCO to reflect the effect of this revision on forecasts that would be impacted by the allocation of corporate charges. 38
10. Acknowledging ATCO's submission that the reconciliation could be a significant undertaking, that could have a negative impact on timely refund to customers, the Board directs ATCO to conduct a review and reconciliation of the deferred income tax balance at the next GRA. 46
11. As discussed in connection with Direction 44, the Board agrees with ATCO's proposal for a combination of the deferred tax refund and one-time hearing expense recovery, and accepts ATCO's proposal to offset this combined amount against the revenue requirement shortfall

5 ORDER

THEREFORE IT IS ORDERED THAT:

(1) No later than May 19, 2004, ATCO Gas shall submit the next compliance filing (the Second Compliance Filing) to adjust the revenue requirement for the test years to reflect the impact of Board directions in this Decision.

(2) No later than May 19, 2004, ATCO Gas shall file a proposal for collection of the net revenue shortfall for 2003 and 2004 referred to in the context of paragraph 2.2.30 of this Decision.

Dated in Calgary, Alberta on April 28, 2004

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

Gordon J. Miller
Member

(original signed by)

J. I. Douglas FCA
Member