



## **ATCO Gas South**

**2001/2002 General Rate Application, and  
Part A: Asset Transfer, Outsourcing  
Arrangements, and GRA Issues  
Second Compliance Filing**

**January 21, 2003**

**ALBERTA ENERGY AND UTILITIES BOARD**

Decision 2003-006: ATCO Gas South

2001/2002 General Rate Application, and Part A: Asset Transfer, Outsourcing Arrangements,  
and GRA Issues

Second Compliance Filing

Application No. 1286129

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## Contents

<b>1</b>	<b>INTRODUCTION.....</b>	<b>1</b>
<b>2</b>	<b>COMPLIANCE WITH BOARD DIRECTIONS.....</b>	<b>2</b>
2.1	Compliance with Direction 1 .....	2
2.2	Compliance with Direction 2 .....	3
2.3	Compliance with Direction 3 .....	3
2.4	Compliance with Direction 4 .....	3
2.5	Compliance with Direction 5 .....	4
2.6	Compliance with Direction 6 .....	4
2.7	Compliance with Direction 7 .....	4
2.8	Compliance with Direction 8 .....	5
<b>3</b>	<b>OVERALL CONCLUSION ON THE SECOND FILING .....</b>	<b>7</b>
<b>4</b>	<b>SUMMARY OF BOARD DIRECTIONS.....</b>	<b>8</b>
<b>5</b>	<b>ORDER .....</b>	<b>8</b>
	<b>SCHEDULE A-1 – UTILITY RATE BASE.....</b>	<b>11</b>
	<b>SCHEDULE A-2 – UTILITY REVENUE REQUIREMENT .....</b>	<b>12</b>
	<b>SCHEDULE A-3 – RETURN ON RATE BASE.....</b>	<b>13</b>
	<b>SCHEDULE B – REFUND RATES.....</b>	<b>14</b>



# **ALBERTA ENERGY AND UTILITIES BOARD**

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**Calgary Alberta**

## **ATCO GAS SOUTH 2001/2002 GENERAL RATE APPLICATION, AND PART A: ASSET TRANSFER, OUTSOURCING ARRANGEMENTS AND GRA ISSUES SECOND COMPLIANCE FILING**

**Decision 2003-006  
Application No. 1286129  
File No. 1307-6**

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### **1 INTRODUCTION**

On December 12, 2001, the Alberta Energy and Utilities Board (the Board) issued Decision 2001-96 regarding the 2001/2002 Phase I General Rate Application (GRA) of ATCO Gas South (ATCO or the Company). In Decision 2001-96, the Board directed ATCO to re-file its 2001/2002 GRA to incorporate the Board's findings in that Decision.

On February 28, 2002, ATCO re-filed its 2001/2002 GRA, reflecting the revisions to the Company's rate base and revenue requirement required to comply with the Board's directions in Decision 2001-96. On May 30, 2002, the Board issued Decision 2002-050 approving the revisions to the GRA, and directing ATCO to incorporate some additional revisions in the GRA in a further filing to be submitted after release of the Board decisions on the ATCO Group Affiliate Transactions and Code of Conduct Proceeding (Affiliate Proceeding) and the ATCO Carbon Storage Transfer Proceeding. Decision 2002-050 also approved ATCO's proposal for collection of revenue shortfalls for 2001 and 2002 on an interim refundable basis

On July 26, 2002, the Board issued Decision 2002-069, Part A: Asset Transfer, Outsourcing Arrangements, and GRA Issues (the Affiliate Decision), regarding the Affiliate Proceeding. In the Affiliate Decision, the Board directed the Applicants, one of which is ATCO Gas South, to submit a compliance filing to reflect the directions of the Board in the Affiliate Decision.

On July 30, 2002, the Board issued Decision 2002-072 (the ATCO Carbon Transfer Decision), which also included directions to ATCO for adjustments to the ATCO Gas South 2001/2002 GRA.

On September 17, 2002, ATCO re-filed its 2001-2002 GRA amounts (the Compliance Filing), reflecting the revisions to the Company's rate base and revenue requirement to comply with the Board's directions in Decision 2002-050, in the Affiliate Decision and in the ATCO Carbon Transfer Decision. The Board issued Decision 2002-097 on November 19, 2002, after considering submissions from the Alberta Urban Municipalities Association (AUMA) and the City of Calgary (Calgary), and the Company. In Decision 2002-097, the Board directed the Company to submit a second compliance filing (the Second Filing) to incorporate the Board's findings with respect to the Compliance Filing.

ATCO submitted the Second Filing on December 12, 2002. The Second Filing incorporated a proposal by ATCO for application of a credit to customers' bills in January 2003, to refund the over collection of the 2001/2002 revenue shortfall which arose from the interim rates approved

in Decision 2002-050. However, recognizing the need to provide interested parties with the opportunity to make submissions with respect to the filing, and the limited time available to process the filing prior to January 1, 2003, the Board indicated, in a letter dated December 13, 2002, that a more realistic date for implementation of the one-time refund rider would be February 1, 2003. In the December 13, 2002 letter, the Board invited interested parties to provide submissions with respect to the Application no later than December 20, 2002, with reply by ATCO no later than January 6, 2003.

Submissions were received on December 20, 2002 from Calgary and the AUMA. ATCO filed its reply to the submissions of interested parties on December 24, 2002.

## **2 COMPLIANCE WITH BOARD DIRECTIONS**

In the Second Filing, ATCO provided a summary of each direction, an explanation of ATCO's response, and the related impact on the 2001 and 2002 GRA amounts and revenue requirement. The Second Filing incorporated a full set of 2001/2002 GRA schedules updated to reflect the effect of the adjustments made in response to the Board Directions in Decision 2002-097. The Board will address ATCO's response to each of the Directions in Decision 2002-097.

The following sections of this Decision deal with ATCO's response to Board Directions 1 to 8 of Decision 2002-097.

The AUMA had some concerns relating to ATCO's proposal for refund of amounts over collected, in response to Direction 8, but did not object to ATCO's responses to the other Directions.

Calgary was satisfied that ATCO's adjustments to test year forecasts were in accordance with the Board's directives, and had resolved some of its concerns with the refund methodology proposed in response to Direction 8. Calgary submitted that the Board could proceed to finalize the matters addressed in the Second Filing without further process.

### **2.1 Compliance with Direction 1**

In Decision 2002-097, the Board indicated that the onus is upon the Company to ensure it has complied with all of the Board's directions from the Affiliate Decision in the Compliance Filing, or in the next GRA as applicable. The Board therefore directed the Company to comply with Directions 4, 11, 14, 17, 18, 22, 23, 24, 27, and 29A from Decision 2002-069 at the next GRA or as otherwise directed by the Board

#### **Views of the Applicant**

ATCO made no comment in the Second Filing with respect to the matters raised in Direction 1.

#### **Views of the Board**

The Board notes that, in correspondence to the Board dated October 25, 2002 and November 8, 2002, ATCO has provided information on the process proposed to address the matters set out in Direction 1, and/or details of the related impact on the ATCO Gas 2003/2004 GRA.

Accordingly, the Board is satisfied that ATCO has taken satisfactory steps to comply with Direction 1 of Decision 2002-097.

## **2.2 Compliance with Direction 2**

In Decision 2002-097, the Board addressed the issue of revisions to the revenue requirement for the 2002 test year to reflect the impact of the transfer of costs such as bad debt expense, other gas supply-related costs, and penalty revenues from the base rates to the Gas Cost Recovery Rate (GCRR). In the Decision, the Board did not accept ATCO's proposal to reflect only 9/12<sup>th</sup> of the 2002 forecast gas supply-related costs and revenues in the adjustment to the revenue requirement. Accordingly, the Board directed ATCO to revise the 2002 revenues and revenue requirement to reflect the impact of the full year forecast of penalty revenues, bad debts and other gas supply-related costs to the GCRR.

### **Views of the Applicant**

In the Second Filing ATCO amended the Compliance Filing to reflect the impact of Board Direction 2, and indicated that the required adjustment to the GCRR was reflected in the December 2002 GCRR filed on November 25, 2002.

### **Views of the Board**

The Board considers that ATCO has satisfactorily complied with Board Direction 2.

## **2.3 Compliance with Direction 3**

In Decision 2002-097, the Board addressed the issue of amortization of the loss on assets transferred to I-Tek. Specifically, the Board had determined, in the Affiliate Decision, that an adjustment to the loss attributable to the Company should be allocated over the years 2001-2003. However, in Decision 2002-097, the Board did not accept ATCO's proposal for allocation of the loss over the years from 1999 to 2003. The Board therefore, directed ATCO to apply the impact of the revised loss on asset transfer exclusively to 2001, 2002 and 2003 and to reflect the necessary amendments to the revenue requirement for the 2001 and 2002 test years in the Second Filing.

### **Views of the Applicant**

In the Second Filing ATCO amended the Compliance Filing to reflect the impact of Board Direction 3.

### **Views of the Board**

The Board considers that ATCO has satisfactorily complied with Board Direction 3.

## **2.4 Compliance with Direction 4**

Decision 2002-097 dealt with ATCO's interpretation of the direction in the Affiliate Decision regarding the reduction of 11.1% in ATCO Singlepoint charges. In Decision 2002-097, the Board did not accept ATCO's proposal to exclude from the 11.1% reduction, the portion of Singlepoint charges attributable to the pass through of I-Tek charges. The Board therefore, directed ATCO to apply the 11.1% reduction to the I-Tek charges included as a pass through of Singlepoint charges.

### **Views of the Applicant**

In the Second Filing ATCO amended the Compliance Filing to reflect the impact of Board Direction 4.

### **Views of the Board**

The Board considers that ATCO has satisfactorily complied with Board Direction 4.

## **2.5 Compliance with Direction 5**

In Decision 2002-097, the Board directed ATCO to resubmit Table 5 from the Affiliate Decision incorporating the Board's findings with respect to the Compliance Filing.

### **Views of the Applicant**

In the Second Filing ATCO provided an updated Table 5, incorporating the Board's findings with respect to the Compliance Filing.

### **Views of the Board**

The Board considers that ATCO has satisfactorily complied with Board Direction 5.

## **2.6 Compliance with Direction 6**

In Decision 2002-072, the Board directed ATCO to revise the Cost of Storage Rate Rider (COSRR) for the 2002/2003 storage year, to reflect an increase in the rates payable by ATCO Midstream for use of the Uncontracted Capacity at the Carbon Storage Facility from \$0.32/GJ to \$0.41/GJ. In Decision 2002-097, the Board directed ATCO to file its proposal for revision to the COSRR as soon as practicable.

### **Views of the Applicant**

ATCO revised the COSRR to reflect the increase in the rate payable by ATCO Midstream, and incorporated the change in the December 2002 COSRR filing submitted on November 25, 2002.

### **Views of the Board**

The Board considers that ATCO has satisfactorily complied with Board Direction 6.

## **2.7 Compliance with Direction 7**

In Decision 2002-097, the Board directed ATCO, in filing its proposal for revision to the COSRR pursuant to Direction 6, to confirm how the "Prepayment" and "Annual Fee" for Compressor #6 have been accounted for.

### **Views of the Applicant**

ATCO indicated that neither the amortization of the deferred storage revenue (Prepayment) or revenue from ATCO Midstream (Annual Fee) related to Compressor #6 were included in the 2001/2002 GRA. ATCO pointed out that instead, the storage revenue included in the GRA was based on \$0.32/GJ without any reduction related to the Prepayment and the Annual Fee. ATCO submitted that, if these amounts had been incorporated in the GRA, ATCO would have had to



reduce the storage revenue forecast to avoid a duplication of the benefit to customers arising from the Prepayment and Annual Fee revenues. ATCO explained that the storage revenue provided to customers through the COSRR consists of the Uncontracted Capacity revenue from ATCO Midstream plus the Prepayment, Annual Fee and working capital benefit related to the Prepayment.

### **Views of the Board**

The Board is satisfied with ATCO's response to Direction 7.

### **2.8 Compliance with Direction 8**

In Decision 2002-050, the Board approved ATCO's proposal for collection of revenue shortfalls for 2001 and 2002 on an interim refundable basis pending determination of final rates in the Phase II process. The collection was based on forecast consumption from June 1, 2002 to December 31, 2002. In Decision 2002-097, the Board acknowledged that the revisions to the revenue requirement for the test years, as reflected in the Compliance Filing, have resulted in a significant reduction to the combined revenue shortfall for the test years. The Board therefore, directed ATCO, in the Second Filing, to incorporate an update to the calculation of the revenue shortfall collection, and a proposal for a credit rider or a one-time refund to deal with any related over-collection.

### **Views of the Applicant**

ATCO provided a table indicating a forecast over-recovery from the shortfall riders implemented on June 1, 2002, of \$9,989,000. ATCO proposed the provision of a refund to customers during the month of January 2003 based on the proposed refund rates as calculated in the table. ATCO proposed that the refund rates would be applied to the customer's consumption for the period June 1 to December 31, 2002, and would appear as a credit on the customer's bill.

ATCO disagreed with the AUMA's suggestion that a reconciliation process occur with respect to the refund of \$9,989,000, pointing out that the refund rider will be applied to the same actual volumes used in determination of the interim rider. ATCO indicated that using the same volumes for interim collection of the revenue shortfall and payment of the refund results in collection of the same net amount that would have been collected if the final revenue shortfall had been known and the appropriate rider put in place on June 1, 2002. ATCO submitted that it would be inconsistent to apply the refund rider to different volumes from those used in collection of the revenue shortfall.

ATCO submitted that in fairness, if a reconciliation process is to occur, it must occur on the entire amount of the revenue shortfall collected. In ATCO's view, application of a reconciliation process to the refund rider only would be contrary to the prospectivity principle.

ATCO noted that the AUMA was the only party to file an objection, and considered that the Second Filing should be approved as filed, with the exception of the change in date for the implementation of the one-time refund rider to February 1, 2002, as recommended by the Board.

### **Views of Interested Parties**

The AUMA agreed with ATCO's calculation of the forecast over-collection of \$9,989,000, the method of allocation for the over-collection to the various rate classes and calculation of the

amount of the shortfall rider. However, the AUMA expressed concern that ATCO had not provided information to show the impact of actual consumption for the months of June to December 2002 on the total refund or the refund to individual rate classes. In particular, the AUMA noted that ATCO had provided no information on how to deal with extreme over or under refunds that would result in the event that the proposed riders were applied based on actual consumption for customers during the months of June to December 2002.

The AUMA referred to information on the ATCO website indicating the extent to which the weather in November and December 2002 was warmer than normal. The AUMA pointed out that, all things being equal, if the proposed riders were applied based on actual consumption for customers during the months of June to December 2002 the likely result would be an under-refund to most Rate 1/11 customers because of high correlation between degree days and consumption. The AUMA considered that the same would not likely apply in the case of some Rate 3 and most Rate 13 customers, and acknowledged that the impact on Rate 5/18 customers is unknown. In the AUMA's view, while the amounts of any over or under-refunds to each rate class are unknown, the net impact would be a shifting of the refund away from Rate 1/11 and Rate 3 (to a lesser extent) and providing more of the refund to Rate 13 customers.

Accordingly, the AUMA recommended that the refund be treated as interim, pending a final reconciliation, and that ATCO be directed to report the amounts refunded to each of the customer classes as set out in the Second Filing after the refunds have been distributed in January 2003. The AUMA suggested that further written comments by ATCO and the Interveners, would assist the Board in determining the merits of any final disposition of the over or under-refunds.

### **Views of the Board**

The Board notes the concern of the AUMA that there is the potential for under/over recovery of the shortfall and disproportionate sharing of the difference between rate classes, due to warmer than forecast weather in November/December, when compared to forecasted collections.

However, the Board notes that ATCO calculated the interim shortfall rider (approved in Decision 2002-050) and refund rider (as proposed in the Second Filing) based on the same forecast volumes. The Board also notes that the interim shortfall rider was collected on the basis of actual volumes consumed and that ATCO proposes to apply the refund rider to the same actual consumption volume in the period. The Board is satisfied that application of the methodology used by ATCO to determine the interim shortfall rider and proposed refund rider are appropriate and consistent with the principles of prospective ratemaking.

With respect to the AUMA's concern, the Board is satisfied that, while the amount refunded may be allocated disproportionately when compared to the forecast amounts, the same condition holds true with respect to the amount collected by the interim shortfall rider. In this respect, the Board notes that any reduction in the refund to those customers will be consistent with the reduction in the amount collected by the interim shortfall rider.

Accordingly, the Board accepts ATCO's proposal to refund to customers, during the month of February 2003, the amount over collected through the interim shortfall rider. The proposed refund based on the refund rates as calculated in the Second Filing, are attached as Schedule B to this Decision. The refund amount will be distributed in accordance with the actual consumption during the June to December 2002 period.

### 3 OVERALL CONCLUSION ON THE SECOND FILING

The Board considers that ATCO has complied with the Board's Directions in Decision 2002-097, and has appropriately reflected the necessary revisions in the 2001/2002 GRA revenue requirement. The Board is satisfied that ATCO could now, if necessary, file a Phase II application to determine the revisions to rates, tolls and charges necessary to recover the approved 2002 revenue requirement on a going forward basis. However, the Board questions the need for ATCO to file a comprehensive 2001/2002 Phase II application at this time, given that a proceeding is presently underway to deal with a 2003/2004 GRA for ATCO Gas North and South. The Board notes that existing rates were initially implemented in Decision 2000-16 dated June 13, 2000, and that the 2003/2004 GRA could result in implementation of new rates approximately one year following any revision to rates arising from a 2001/2002 Phase II. Given these factors, combined with an already congested regulatory schedule, in the absence of circumstances that would suggest a material shifting of costs among rate classes, the Board is not convinced that an additional Phase II process is required at this time.

Accordingly, to expedite the process for determining the need for new rates, tolls and charges, based on the 2002 revenue requirement, the Board directs ATCO to file a submission advising the Board as to whether or not the Company considers a Phase II proceeding necessary for 2001/2002. The Board expects that the factors supporting ATCO's submission will include information to demonstrate the extent to which the 2002 costs may have shifted between rate classes. To determine the magnitude of any shifting of costs between rate classes and the extent to which the revenue/cost ratio for each customer class is within an acceptable range, the Board expects ATCO, at a minimum, to file information on the new revenue/cost ratios for each customer class based on an appropriate allocation of the 2002 revenue requirement using the parameters in the latest cost of service study approved by the Board in Decision 2000-16.

The Board expects ATCO to file its submission on the appropriateness of conducting a 2001/2002 Phase II, supported by information on the shifting of costs between rate classes, within 45 days from the date of issue of this Decision. ATCO should provide a copy of the submission and related information to all interested parties, to enable parties to provide submissions with respect to the suitability of continuing without the need to alter existing rates and without the need for a comprehensive Phase II application incorporating a 2002 cost of service study.

The Board also notes that, in Direction 12 of Decision 2001-75 dated October 30, 2001, ATCO was directed to file an unbundling allocation study (the Study) within 90 days of the date of Board approval of the ATCO Gas South Phase I revenue requirement. The Board's direction in Decision 2001-75 was issued recognizing the need to revise the rate structure to facilitate moving towards a competitive marketplace. However, the Board considers that the need for the proposed Study is now questionable, given subsequent developments. In the context of the proposed sale of its retail function to Direct Energy, ATCO will be required to file an application for approval of the sale in due course, complete with a specific unbundling proposal.

Accordingly, recognizing that a retail sale application would address the same issues in substance as those to be examined in the proposed Study, the Board will not require ATCO to file the Study pursuant to Direction 12 of Decision 2001-75 at this time.

#### 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 report, the wording in the main body of the Decision shall prevail.

1. Accordingly, to expedite the process for determining the need for new rates, tolls and charges, based on the 2002 revenue requirement, the Board directs ATCO to file a submission advising the Board as to whether or not the Company considers a Phase II proceeding necessary for 2001/2002. The Board expects that the factors supporting ATCO's submission will include information to demonstrate the extent to which the 2002 costs may have shifted between rate classes. To determine the magnitude of any shifting of costs between rate classes and the extent to which the revenue/cost ratio for each customer class is within an acceptable range, the Board expects ATCO, at a minimum, to file information on the new revenue/cost ratios for each customer class based on an appropriate allocation of the 2002 revenue requirement using the parameters in the latest cost of service study approved by the Board in Decision 2000-16. .... 7

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#### 5 ORDER

THEREFORE IT IS ORDERED THAT:

- (1) The rate base and revenue requirement of ATCO Gas South as set out as set out in Schedules A-1 to A-3 of this Decision together with forecast revenues for 2001 and 2002 in the second compliance filing are hereby approved.
- (2) The proposal of ATCO Gas South to refund during the month of February 2003, the amount over-collected from customers through the interim shortfall rider, based on the refund rates calculated and attached as Schedule B to this Decision, is hereby approved.

Dated in Calgary, Alberta on January 21, 2003.

**ALBERTA ENERGY AND UTILITIES BOARD**

*(original signed by)*

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

*(original signed by)*

C. Dahl Rees  
Acting Member

*(original signed by)*

Michael J. Bruni, Q.C.  
Acting Member



**SCHEDULE A-1 – UTILITY RATE BASE**

	<b>ATCO GAS SOUTH UTILITY RATE BASE (\$000)</b>	
	<u>2001</u>	<u>2002</u>
<u>Property Plant and Equipment</u>		
Balance as at December 31	825,807	866,493
<u>Less:</u>		
Construction work in Progress	1,977	1,367
Non Utility Assets	2,600	2,605
P.H.F.F.U.	0	0
Gross Plant in Service	<u>821,230</u>	<u>862,521</u>
Net Accumulated Depreciation	303,457	329,473
Less: Non-Utility Accumulated Depreciation	1,179	1,353
	<u>302,278</u>	<u>328,120</u>
Net Contributions	112,923	117,989
Less: Non-Utility Contributions	81	64
<u>Net Plant in Service</u>	<u>112,842</u>	<u>117,925</u>
Current Year End	406,110	416,476
Prior Year End	<u>391,844</u>	<u>406,110</u>
Total	797,954	822,586
Mid Year Balance	398,977	411,293
Necessary Working Capital	<u>64,467</u>	<u>31,504</u>
Mid Year Rate Base	<u>463,444</u>	<u>442,797</u>

**SCHEDULE A-2 – UTILITY REVENUE REQUIREMENT**

<b>ATCO GAS SOUTH</b>		
<b>UTILITY REVENUE REQUIREMENT</b>		
<b>(\$000)</b>		
	2001	2002
Rate Base	463,444	442,797
Return on Rate Base	8.466%	8.473%
Utility Income	39,235	37,516
Storage Adjustment	2,052	
Working Capital transferred to GCRR		(358)
<u>Cash Operating Expenses</u>		
Other Taxes	354	368
Other Operating Expenses	96,679	96,404
Total Cash Operating Expenses	97,033	96,772
Depreciation	27,645	29,161
Provision for Income Taxes	8,841	14,389
Base Rate Revenue Requirement	174,806	177,480
Less Revenue on Existing Rates	179,176	162,805
Revenue Shortfall (Surplus)	(4,370)	14,675
Less Delivery Rate Adjustment for Storage		4,183
Less Delivery Rate Adjustment for Gas Acquisition Costs		369
Net Shortfall (Surplus)		10,123



**SCHEDULE A-3 – RETURN ON RATE BASE**

<b>ATCO GAS SOUTH RETURN ON RATE BASE</b>						
	Midyear Capitalization	Ratio Exclusive of Contributions	Ratio Inclusive of Contributions	Midyear Rate Base	Cost Rate	Return
	(\$000)	(%)	(%)	(\$000)	(%)	(\$000)
<b>2001 FORECAST</b>						
Long Term Debt	239 244	0.516	0.417	239 244	8.320	19 905
Short Term Debt	21 145	0.046	0.037	21 145	4.750	1 004
Preferred Shares	29 130	0.063	0.051	29 130	5.517	1 607
No Cost Capital	2 451	0.005	0.041	2 451	0.000	0
Common Equity	171 475	0.370	0.299	171 475	9.750	16 719
	<u>463 445</u>	<u>1.000</u>	0.808	463 445	8.466	39 235
Contributions	<u>110 297</u>		<u>0.192</u>	<u>110 297</u>	0.000	0
Total	<u>573 742</u>		<u>1.000</u>	<u>573 742</u>	6.838	<u>39 235</u>
<b>2002 FORECAST</b>						
Long Term Debt	233 109	0.526	0.417	233 109	8.179	19 066
Short Term Debt	14 396	0.033	0.026	14 396	4.750	684
Preferred Shares	29 157	0.066	0.052	29 157	6.146	1 792
No Cost Capital	2 300	0.005	0.032	2 300	0.000	0
Common Equity	163 835	0.370	0.292	163 835	9.750	15 974
	<u>442 797</u>	<u>1.000</u>	0.793	442 797	8.473	37 516
Contributions	<u>115 511</u>		<u>0.207</u>	<u>115 511</u>	0.000	0
Total	<u>558 308</u>		<u>1.000</u>	<u>558 308</u>	6.720	<u>37 516</u>

**SCHEDULE B – REFUND RATES**

**ATCO GAS SOUTH  
REFUND RATES**

Rate	2002 Revenue on Existing Rates \$(000) [A]	% of 2002 Revenue % [B]	Share of 2001/2002 Original Revenue Requirement Shortfall \$(000) [C]	Forecast 2002 Consumption June-Dec TJ [D]	Approved Rider June-Dec \$/GJ [E]	Share of 2001/2002 Compliance Decision Revenue Requirement Shortfall \$(000) [F]	Difference C - F \$(000) [G]	Refund Rate \$/GJ [H]
1/11	141,315	90.44	14,237	37,393	\$ 0.381	5,203	9,034	\$ (0.242)
3	11,528	7.38	1,161	8,638	\$ 0.134	424	737	\$ (0.085)
5/18	726	0.46	73	772	\$ 0.095	27	46	\$ (0.060)
13	2,685	1.72	271	4,938	\$ 0.055	99	172	\$ (0.035)
Total	156,254	100.00	15,742	51,741		5,753	9,989	