ALBERTA ENERGY AND UTILITIES BOARD
Calgary Alberta

ATCO GAS – A DIVISION OF ATCO GAS AND PIPELINES LTD.	
RECONCILIATION PROCESS FOR CERTAIN	
COSTS AND REVENUES CHARGED TO THE GAS	**Decision 2003-015**
COST RECOVERY RATE AND COMPANY-OWNED	**Application No. 1285053**
STORAGE RATE RIDER	**File No. 4000-3**

1 THE APPLICATION

By letter dated December 3, 2002, ATCO Gas filed an Application (the Application) with the Alberta Energy and Utilities Board (the Board) requesting approval of a proposed reconciliation process for the unbundled costs and revenues charged to the gas cost recovery rate (GCRR) and the company-owned storage rate rider (COSRR), as directed pursuant to Decision 2001-75, dated October 30, 2001. The Application dealt with ATCO Gas – South and ATCO Gas – North (collectively ATCO Gas). As costs of service included in delivery rates are based on forecasts and as reconciliation of the unbundled costs and revenues was not previously addressed in the unbundling process, ATCO Gas proposed that the approved reconciliation methodology used for the deferred gas account (DGA) should be applied to the amounts that were transferred from delivery rates to be consistent with the deferral nature of the DGA.

ATCO Gas proposed that, with the filing of the GCRRs and COSRR for March 2003, it would file a reconciliation of the previous year's unbundled costs and revenues. Any differences from the forecasts would be applied equally over the 10 remaining months of the year. ATCO Gas would reconcile all charges to the DGA and the COSRR based on actual costs (using the most recently approved return on rate base for working capital related items). ATCO Gas further proposed to use forecasts for each new year based on the last approved forecast by the Board until such time as the Board approves a new forecast. ATCO Gas submitted that its recommendation would provide consistent treatment with respect to all costs and revenues used in the determination of the GCRR and COSRR and is consistent with the currently approved DGA process.

2 BACKGROUND

Pursuant to Decision 2001-75, the Board directed regulated gas utilities, including ATCO Gas, to transfer to their respective GCRR, from and after April 1, 2002, certain forecast costs related to the sale of natural gas that were previously included in their delivery rates. These unbundled costs included gas procurement, portfolio management, a portion of bad debt costs related to gas supply, and necessary working capital costs related to gas supply. In the determination of the GCRR, a DGA is used by a gas utility to reconcile forecast costs and revenues with actual costs and revenues incurred.

ATCO Gas – South was further directed in Decision 2001-75 to develop a COSRR mechanism that would apply the benefits or costs of the use of the Carbon Storage Facility to all customers in its service area. The COSRR includes actual storage revenue from third parties or Affiliates, a winter/summer price differential, and necessary working capital costs related to gas stored. The necessary working capital costs are currently based on the ATCO Gas – South 2001/2002 general rate application (GRA) forecast capital structure, and a forecast of storage volumes. The market value of monthly gas injections to and withdrawals from the Carbon Storage facility is charged to the DGA in order that the GCRR is more representative of market value for natural gas. ATCO Gas – South developed an account similar to the DGA, the deferred company-owned storage account, for purposes of the COSRR.

Also pursuant to Decision 2001-75, regulated gas utilities were directed to demonstrate the process to be used to unbundle the specified gas supply costs. For ATCO Gas – South and ATCO Gas – North, this direction led to Decisions 2002-034 and 2002-035, both dated March 21, 2002, respectively, in which revisions to the unbundling process were approved.

By letter dated January 13, 2003, the Board advised all interested parties registered on the distribution lists for monthly gas cost recovery rate filings for ATCO Gas – North and ATCO Gas – South of the Application and invited comments from these parties on the merits of the Application. These parties included intervenors that would normally participate in the examination process involving the setting of a GCRR. The Board considers that the distribution, in this instance, provides an adequate degree of public notice. In addition, the Board notes that a direction in Decision 2001-75 provides a 30-day review period for any party to raise any concerns with a monthly GCRR after it has received acknowledgement from the Board.

Any party wishing to make a submission was required to do so by January 22, 2003. The Board received submissions from the Federation of Alberta Gas Co-ops Ltd. and Gas Alberta Inc. (the FGA) and the City of Calgary (Calgary).

3 POSITIONS OF THE PARTIES

The FGA submitted that the 10-month time period that ATCO Gas proposed to use for adjustment of the differences between forecast and actual amounts might be inappropriate given the circumstances where the quantum of any adjustment is unknown. They submitted that it would be prudent to wait to see what adjustment amounts materialize before the length of the reconciliation period is determined and that ATCO Gas and customers should be given an opportunity to examine the potential impact of any reconciliation on customers and determine the optimal method of reconciliation. They further submitted that once the quantum and sensitivities of the adjustments are known, ATCO Gas could then file an application with the Board in this matter, and customers will be in a better position to comment on the appropriateness of any proposed reconciliation method.

While Calgary agreed with the principle of the reconciliation process for deferral accounts, it considered that the Application, as filed, was premature, and lacked important details, some of which cannot be resolved properly without GRA changes, an unbundling process and a Phase II. Calgary expressed concern that the unbundled costs involved in the proposed reconciliation process, which have been based on forecasts in a GRA, have not received prior approval for deferral account treatment.

By letter dated January 28, 2003, ATCO Gas commented on the submissions made by the FGA and Calgary. With respect to the submission of the FGA, ATCO Gas stated that it would not be opposed to the Board establishing guidelines different from those it proposed for the reconciliation “true up” period, and sees some merit in using a range of dollar values as a guideline. In regard to the submission by Calgary, ATCO Gas noted that, consistent with the deferral nature of the GCRR, and the fact that all charges in the COSRR with the exception of working capital have been done on an actual, not forecast basis, it is simply requesting consistent treatment with respect to the unbundled charges. In addition, it stated that it was proposing to use the existing monthly GCRR/COSRR process established by the Board in that it would file the necessary information with respect to the reconciliation in the development of the March rates and the intervenors would have 30 days to identify concerns with respect to the material filed, as is the current practice.

4 BOARD FINDINGS

In principle, the Board considers that reconciling all forecast amounts initially used in determining a GCRR, or COSRR, with actual amounts incurred is consistent with the DGA methodology that was previously approved by the Board prior to the issue of Decision 2001-75. However, with the exception noted below with respect to necessary working capital related to gas stored at ATCO Gas – South’s Carbon Storage Facility (Carbon), the Board does not accept for purposes of 2002 unbundled amounts that costs or revenues which were previously approved on a forecast basis in cost of service should be reconciled to actual amounts. Given that risk related to set rate of return and capital structure were taken into account at the particular time when these cost of service forecasts were approved, the Board does not consider it appropriate to now permit a reconciliation of these forecasted costs. The Board therefore does not accept that ATCO Gas should now be able to recover those unbundled costs for 2002 on the basis of actual amounts incurred.

The Board considers that it would be more appropriate to deal with the issue of cost reconciliation for items moved to either the GCRR or the COSRR on a go-forward basis and base the reconciliation of any such unbundled costs for 2003 and subsequent years on forecasts used in ATCO Gas’ upcoming 2003/2004 GRA. The Board previously set out its position in this regard in Decision 2002-097, dated November 19, 2002, wherein it stated in Section 2.2.1 in reference to adjustments for revenues/costs transferred to the GCRR in 2002 by ATCO Gas – South:

> The Board notes the concerns of the [Alberta Urban Municipalities Association] that penalty revenue, bad debt expense and related gas supply costs could fluctuate considerably on a monthly basis, with the result that the total of the April-December monthly charges could be somewhat different than the forecast amount already applied in determination of the GCRR for that period. In this regard, the Board notes that the forecast amounts are being dealt with on an average monthly basis, which is consistent with prospective rate-setting methodology. The Board is satisfied that the relative

> amounts established in the GRA process should continue to be applied in the DGA process without adjustment until revised in a subsequent GRA.[1]

In respect of ATCO Gas – North, whose delivery rates were set in accordance with a negotiated settlement process, the Board considers that that process for purposes of the Application would be equivalent to a GRA. Therefore, the Board's comments stated in respect of ATCO Gas – South would similarly apply to ATCO Gas – North. Consequently, the Board will not accept ATCO Gas' proposals for reconciliation of the unbundled costs that have been transferred to the GCRR and COSRR for 2002 that have been included in forecasts used for cost of service and included in the rates set in the negotiated settlement.

However, the Board will allow one exception for 2002 with respect to necessary working capital related to gas stored at ATCO Gas – South's Carbon Storage Facility (Carbon). The Board notes that in the 2001/2002 GRA for ATCO Gas – South there was no forecast of any necessary working capital for gas to be stored at Carbon. However, in recent decisions pertaining to Carbon the Board accepted intervener positions and directed ATCO Gas – South to utilize storage for the benefit of customers. The Board thus considers that ATCO Gas – South would have incurred working capital costs for the gas stored and should be allowed to recover reasonable costs associated with that storage. The Board will therefore accept that necessary working capital costs related to gas stored at Carbon in 2002 should be reconciled using the approved return on rate base in the DGA for ATCO Gas – South.

5 ORDER

THEREFORE, it is hereby ordered that:

For ATCO Gas, A Division of ATCO Gas and Pipelines Ltd.:

(1) With the filing of March 2003 Company-Owned Storage Rate Rider, ATCO Gas – South shall file a reconciliation of the necessary working capital costs related to gas stored at its Carbon Storage facility in 2002 that the Board previously directed to be transferred from cost of service used to determine delivery rates. Any differences arising from forecast amounts used in determining the monthly company-owned storage rate rider shall be applied in the month of March.

(2) With the filing of the March 2004 Gas Cost Recovery Rates and for subsequent years, ATCO Gas shall file a reconciliation of the costs and revenues for those amounts that the Board previously directed to be transferred from delivery rates to the gas cost recovery rates for the immediately preceding calendar year. Any differences arising from forecast amounts used in determining the monthly gas cost recovery shall be applied in the month of March. If such reconciling amounts otherwise cause a difference of greater than 3% to the gas cost recovery rate otherwise determined for March, the adjustment shall be applied reasonably over the remaining months of the current calendar year in a manner

[1] Decision 2002-097, p. 5

acceptable to the Board. The forecast used for each new year shall be based on the forecast last approved by the Board.

(3) With the filing of the March 2004 Company-Owned Storage Rate Rider and for subsequent years, ATCO Gas – South shall file an annual reconciliation of the previous year's costs and revenues transferred from delivery rates to the Company-Owned Storage Rate Rider in the immediately preceding calendar year. All charges to the deferred company-owned storage account shall be reconciled based on actual costs, using the most recent approved return on rate base for working capital related items. The forecast used for each new year shall be based on the forecast last approved by the Board.

Dated in Calgary, Alberta on February 18, 2003.

ALBERTA ENERGY AND UTILITIES BOARD

(original signed by)

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

(original signed by)

T. McGee
Member

(original signed by)

C. Dahl Rees
Acting Member