ALBERTA ENERGY AND UTILITIES BOARD
Calgary, Alberta

ATCO GAS - NORTH	
COMPLIANCE FILING FROM THE APPROVAL OF	**Decision 2002-1**
THE WESTLOCK AND LLOYDMINSTER SALES	**Application No. 1246952**
PURSUANT TO DECISIONS 2001-46 AND 2001-65	**File Nos. 6405-14, 16, 18**

1 INTRODUCTION

In Decision 2001-46 dated May 29, 2001, the Alberta Energy and Utilities Board (the Board) approved, without reasons, the sale by ATCO Gas – North (AGN) of the Westlock et al. and Lloydminster natural gas producing properties (the Properties). The Board issued the Decision without reasons to accommodate the time lines of the sales transactions. On July 31, 2001 the Board issued Decision 2001-65 setting out the reasons for approving the sales.

In Decision 2001-65 the Board directed that certain information regarding the Properties would need to be refiled within 30 days after the completion of the sales transactions or the date of Decision 2001-65, whichever was later (the Compliance Filing).

AGN was directed to:

1. reconcile the Net Book Values (NBV) used by AGN in the Applications and those presented by the customer representatives of the North Core Committee (NCC) based on information provided by AGN in response to information requests;
2. restate the rate base values showing the retained negative salvage; and
3. provide a final statement of proceeds from the approved sales to be used by the North Core Committee in its negotiations regarding distribution of the customers' share of the sale proceeds.

In Decision 2001-65 the Board directed that certain information was to be filed in order to finalize the allocation of the proceeds from the sale of the Properties. The final values for the information could not be determined until the sale closings had been completed. The actual amounts to be allocated depended on the final values for costs of disposition, NBVs and closing price adjustments.

The Board noted, with respect to the title defects and environmental liability provisions included in the sales agreements, that there could be adjustments to the purchase price of the transactions. The Board directed that AGN could not deduct these adjustments from the proceeds so as to affect the amount to be allocated to customers without further Board approval.

By letter dated August 30, 2001 AGN filed with the Board the Compliance Filing with respect to the Properties.

In a letter dated September 17, 2001, the NCC noted that the amount proposed to be allocated to customers was significantly less than the allocation approved in Decision 2001-65.

In a letter dated September 25, 2001, the Board established the following process to better understand the differences between the approved allocation and those presented in the Compliance Filing:

Submission of information requests to AGN	October 1, 2001
Response by AGN	October 9, 2001
Comments from parties regarding the Compliance Filing	October 12, 2001

AGN responded to the comments received with respect to the Compliance Filing on October 16, 2001.

The Board sent additional information requests to AGN on October 31, 2001, to which AGN responded on November 9, 2001.

The Board considers that the record for the Compliance Filing closed on November 9, 2001.

2 REVIEW OF NET BOOK VALUES

AGN submitted the following table in Appendix A of the Compliance Filing, in response to the requirement to reconcile the NBVs:

ATCO GAS (NORTH)
Reconciliation of Net Book Value ($000)

	VIKING	BHL/FT SASK	WESTLOCK	LLOYDMINSTER
As per NCC-AG.69	34,501	7,191	6,772	897
Storage Assets				77
Fickle Field included in error			(15)	
Net Contributions	(41)	(21)		
Work in Progress	1,090		32	
Negative Salvage	4,114	958	764	111
As per Applications (Exhibit # 68)	39,664	8,128	7,553	1,085

The Board notes that the reasons for the difference between the NBVs provided to the NCC in response to NCC-AG.69 and in AGN's original Applications are provided in the Appendix and the table above. The explanations appear reasonable and therefore the Board is satisfied that the reconciliation of the various NBVs is sufficient for purposes of the Compliance Filing.

3 REVIEW OF RATE BASE, STATEMENT OF ADJUSTMENTS AND FINAL STATEMENTS

3.1 Westlock Rate Base

The Board notes that AGN was also required to restate the rate base values showing the retained negative salvage. AGN provided the following information in Table 1 of Appendix B of the Compliance Filing, to meet this requirement:

ATCO Gas North
RATE BASE at MAY 31, 2001

	Original Cost	Accumulated Depreciation	Negative Salvage	Accumulated Depreciation w/o Salvage	Rate Base
Westlock (et al)	$15,644,040	$8,944,809	$766,547	$8,178,262	$7,465,778
Application					$7,553,000
Total Difference					**$(87,222)**
Explanation of Differences					
-Depreciation to May 31 (not included in Application)					$(185,784)
-2001 Expenditures (not included in Application)					$542,677
-Assets not sold but were included in Application					$(547,045)
-Expenditures held in Suspense					$99,832
-Other (Error in Negative Salvage used in Application)					$3,098
Total					**$(87,222)**

The Board notes that the revised rate base calculation showing the retained negative salvage results in a value that is less than the NBV submitted in the Westlock Application. The NBV for Westlock was decreased by $87,222 to $7,465,778.

The Board has reviewed the revision to the NBV and the explanations provided in Appendix B by AGN. The Board accepts as reasonable the change in the rate base calculations as detailed in the above table.

3.2 Westlock Statement of Adjustments

The Board notes that the Statement of Adjustments to determine the net amount due to the Vendor shows the outstanding amount due to AGN to be $11,847,710 for the Westlock property. Four Schedules supported the Statement of Adjustments, detailing the dollar amounts for Interim Capital Costs, Prepaid Mineral Lease Rentals, Prepaid Surface Lease Rentals and Accrued Interest.

The Board considers that the Statement of Adjustments, prepared and accepted by the parties to the transaction, appears to be complete. Therefore, the Board accepts this Statement and Schedules as filed.

3.3 Westlock Statement of Proceeds – Disposition Costs

The Board also required AGN to provide a final statement of proceeds from the approved sales to be used by the NCC in its negotiations regarding distribution of the customers' portion of the sale proceeds.

The Board notes that as part of the final statement of proceeds, AGN deducted disposition costs. AGN explained that the disposition costs for legal fees and incremental costs were shared among the four proposed sales agreements. This was different than in the original Applications, which placed most of the burden of the costs on the Viking sale. AGN stated the following:

> The Disposition Applications filed by ATCO Gas assumed approval of all four dispositions. As a result, certain disposition costs, which could not be identified as relating to a specific sale, were included in the Viking disposition costs (see BR-ATCOGAS-V.17). Given that Decision 2001-46 denied the sale of the Viking assets, it is appropriate to allocate an appropriate portion of these costs to the Westlock and Lloydminster dispositions.[1]

The Board notes that the NCC did not challenge the above disposition costs or their allocation. The Board has examined the methodology used to apportion the costs and is satisfied that it appears reasonable and fair. The Board will therefore accept the costs as stated by AGN.

The NCC did, however, challenge the costs of deposit interest, specifically deposit interest payable and earned on both the Westlock and Lloydminster filings. The NCC recommended that in the absence of information regarding the amount of interest earned on the Westlock deposit, interest should be calculated at prime plus 1.5% based on the Board's Information Letter (IL 2000-1). The NCC also argued that these funds would represent a capital source for AGN.

The Board notes the submission of AGN that it could provide the short-term interest rate earned on the deposit. Additionally, due to the short-term nature and relatively small amount of these funds, they would not represent a capital source for AGN.

The Board agrees with the submissions made by AGN, and will allow the difference between the interest earned and paid on the Westlock deposit to be treated as a cost of disposition as proposed by AGN.

In light of the above comments, the Board approves the disposition costs of $338,000 for Westlock as set out in Table 4 of Appendix B of the Compliance Filing.

3.4 Westlock Statement of Proceeds – Income Tax

In response to BR-AG.4, AGN produced revised calculations detailing proceeds available for allocation and updated income tax schedules for both Properties. The following table from AGN's response highlights the income tax calculation for the Westlock properties.

[1] Compliance Filing, Appendix B, p.2, lines 24-29

		Westlock (et al.)	
Total Income Tax on Sale	(B)	3,837	
Proceeds to be deferred	(C)	(4,488)	Revised Appendix B, Table 3, Line 14
Federal Income Tax Reduction		(1,257)	(C) X 28%
Provincial Income Tax Reduction		(628)	(C) X 14%
Total Income Tax Reduction	(D)	(1,885)	
Net Income Tax	(E)	1,952	(B) + (D)
Proceeds to Shareholders		34	Petroleum Rights
Tax on Shareholder proceeds	(F)	(14)	Proceeds X 42%
After Tax proceeds to Shareholders		20	
Tax to be recovered from customers	(G)	1,938	(E) + (F)
Gross up to revenue requirement	(H)	3,341	(G) / (1-.42)
Deferred Income Tax Refund			
Net Proceeds to Customers		(1,147)	(C) + (H)

The Board notes from the table that customer's proceeds were reduced by provincial and federal income taxes after being grossed up to a revenue requirement basis. The grossed up calculation suggests that customers would bear the brunt of the income tax amount associated with the sale, in effect leaving AGN essentially free of income tax. The Board notes that this approach would leave $1,147,000 for customers.

The NCC submitted that the deduction of income tax from the customers' share of proceeds was not contemplated in the Board's decision and was not reflected in the approved Allocation of Proceeds (Appendix 2 of Decision 2000-65). AGN argued that the provincial non-production Class 10 CCA (capital cost allowance) pool should not be used to shelter the production sale proceeds, as it did not relate to the assets being sold.

The Board agrees with AGN that the tax pools should not be used and also agrees with the NCC that the deduction of income tax from the customers' share of the proceeds is inconsistent with the Board's decision. The Board does not accept that the income tax amounts calculated by AGN and as shown at line (G) in the foregoing table should, in any way, be allocated to customers. In Decision 2001-65 the Board determined that $4,046,000 was the amount of proceeds to be allocated to customers with respect to the Westlock sale, based on the information available at the time of the hearing. The Board directed AGN to refile certain information, as stated in Section 1 of this Decision. The Board's direction to refile did not contemplate a deduction for income tax. If the Board were to allow the proposed deduction of income tax from the proceeds payable to customers, the result would be a payment to customers that would be less than the amount to which the customers are entitled as determined by the Board in Decision 2001-65.

Therefore, the Board will not allow AGN to deduct the proposed $3,341,000 from the customers' proceeds.

Accordingly, based on the Compliance Filing, the Board finds that the amount to be allocated to the customers for the Westlock sale is $4,488,000. For a detailed summary of the calculation refer to Appendix 1 to this Decision.

3.5 Lloydminster Rate Base

The Board notes that AGN was also required to restate the rate base values showing the retained negative salvage. AGN provided the following information in Table 1 of Appendix C of the Compliance Filing, to satisfy this requirement:

ATCO Gas North
RATE BASE at MAY 31, 2001

	Original Cost	Accumulated Depreciation	Negative Salvage	Accumulated Depreciation w/o Salvage	Rate Base
Lloydminster - Production	$1,786,803	$1,051,158	$95,502	$955,656	$831,147
Lloydminster - Storage (excludes storage gas)	$65,813	$32,545	$2,267	$30,278	$35,535
Total Lloydminster	$1,852,616	$1,083,703	$97,769	$985,934	$866,682
Application					$1,085,000
Total Difference					**$(218,318)**
Explanation of Differences					
-Depreciation to May 31 (not included in Application)					$(26,282)
-Assets not sold but were included in Application					$(191,980)
-Other					$(56)
Total					**$(218,318)**

The Board notes that the revised rate base calculation showing the retained negative salvage results in a value that is less than the NBV submitted in the Lloydminster Application. The NBV for Lloydminster was decreased by $218,318 to $866,682.

The Board has reviewed the revision to the NBV and the explanations provided in Appendix C by AGN. The Board accepts as reasonable the change in the rate base calculations as detailed in the above table.

3.6 Lloydminster Statement of Adjustments

The Board notes that the Statement of Adjustments filed by AGN shows the outstanding amount due to AGN to be $3,477,750 for the Lloydminster property. Three Schedules supported the Statement of Adjustments detailing the dollar amounts for Provincial Sales Tax, Prepaid Mineral Lease Rentals and Prepaid Surface Lease Rentals.

The Statement of Adjustments also included a reduction in the purchase price of $40,000 for title defects. AGN requested approval to recover the costs through a reduction in purchase price consistent with the treatment shown in the Statement of Adjustments. AGN explained that it is standard industry practice for the Vendor, in consideration of a reduction in purchase price, to obtain a waiver from the purchaser for any claims, liabilities, demands etc. associated with title defects related to the properties disposed of. As a result, the purchaser then assumes the responsibility for any remedy or outcome as a result of the title defects.

AGN pointed out that the total cost to remedy the title defects for the two Properties amounted to 0.2% of the Base Purchase Price of the two dispositions. AGN argued that this amount was reasonable and that to determine imprudence, the Board would have to believe that AGN had made decisions or taken actions with respect to these matters that were not circumspect or reasonable.

The Board notes that the NCC did not take issue with AGN's request for approval of the reduction in purchase price for title defects. The Board has considered AGN's explanation and rationale and accepts it as reasonable. Therefore, the Board approves the reduction of $40,000 in the purchase price whereby the purchaser will assume the responsibility for any remedy or outcome as a result of title defects.

The Board further considers that the Statement of Adjustments, prepared and accepted by the parties to the transaction, appears to be complete. Therefore, the Board accepts this Statement and Schedules as filed.

3.7 Lloydminster Statement of Proceeds – Disposition Costs

AGN was required to provide a final statement of proceeds from the approved sales to be used by the NCC in its negotiations regarding distribution of the customers' portion of the sale proceeds.

With respect to the deposit interest issue raised by the NCC on the Lloydminster filing (see Section 3.3 for discussion), the Board notes that the deposit received on the Lloydminster sale was $380,000. The Board considers that any interest generated on this sum would be insignificant. Therefore, the Board supports the treatment of deposit interest as proposed by AGN for the Lloydminster filing.

The Board notes that as part of the final statement of proceeds, AGN deducted disposition costs for legal fees and incremental costs following the same methodology used in the Westlock case. The Board notes that the explanation of the disposition costs by AGN also applied to Lloydminster.

The Board is satisfied that the costs, as discussed above, are reasonable and the allocation is fair. The Board therefore approves the disposition costs of $101,000 for Lloydminster as set out in Table 4 of Appendix C of the Compliance Filing.

3.8 Lloydminster Statement of Proceeds – Income Tax

In response to BR-AG.4, AGN produced revised calculations detailing proceeds available for allocation and updated income tax schedules for both Properties. The following table taken from AGN's response highlights the income tax calculation for the Lloydminster properties.

		Lloydminster	
Total Income Tax on Sale	(B)	1,232	
Proceeds to be deferred	(C)	(1,875)	Appendix C, Table 3, Line 15
Federal Income Tax Reduction		(525)	(C) X 28%
Provincial Income Tax Reduction		(263)	(C) X 14%
Total Income Tax Reduction	(D)	(788)	
Net Income Tax	(E)	444	(B) + (D)
Proceeds to Shareholders		823	Appendix C, Table 3, Line 16 + P-Rights
Tax on Shareholder proceeds	(F)	(346)	Proceeds X 42%
After Tax proceeds to Shareholders		477	
Tax to be recovered from customers	(G)	98	(E) + (F)
Gross up to revenue requirement	(H)	169	(G) / (1-.42)
Deferred Income Tax Refund			
Net Proceeds to Customers		(1,706)	(C) + (H)

The Board notes from the table that customers' proceeds were reduced by provincial and federal income taxes after being grossed up to a revenue requirement basis. The grossed up calculation suggests that customers would bear the brunt of the income tax amounts associated with the sale, in effect leaving AGN essentially free of income tax. The Board notes that this approach would leave $1,706,000 for customers.

As discussed in Section 3.4 the Board agrees with the NCC that the deduction for income tax from the customers' share is inconsistent with the Board's conclusions in Decision 2001-65 and would reduce the amount of proceeds to which the customers are entitled. Therefore, the Board does not accept that the income tax amount calculated by AGN and shown at line (G) in the foregoing table should, in any way, be allocated to customers. Decision 2001-65 directed that $1,797,000 was the amount of proceeds to be allocated to customers, based on information available at the close of the hearing, to ensure that the customers would be saved harmless from the Lloydminster sale in accordance with the TransAlta Formula.[2] Therefore, the Board will not allow AGN to deduct the proposed $169,000 from the customers' proceeds.

Accordingly, based on the Compliance Filing, the Board finds that the amount that is to be allocated to the customers for the Lloydminster sale is $1,875,000. For a detailed summary of the calculation refer to Appendix 1 to this Decision.

[2] The TransAlta Formula regarding the allocation of sale proceeds was set out by the Board in Decision 2000-41, *TransAlta Utilities Corporation, Sale of Distribution Business* (July 5, 2000).

4 ORDER

The Board accepts the Compliance Filing as complete and directs ATCO Gas to allocate to customers $4,488,000 for the sale of the Westlock Properties and $1,875,000 for the sale of the Lloydminster Properties. These amounts are to be combined with the amounts to be distributed to customers from the sale of the Viking Kinsella properties as approved by the Board in Decision 2001-104, dated December 11, 2001. A Board process is currently underway to deal with the distribution of those amounts among customer groups.

Dated at Calgary, Alberta on January 3, 2002

ALBERTA ENERGY AND UTILITIES BOARD

<Original signed by>

B. F. Bietz, Ph.D.
Presiding Member

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B. T. McManus, Q.C.
Member

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T. M. McGee
Member

APPENDIX 1

ATCO GAS – NORTH
ALLOCATION OF PROCEEDS

		Westlock ($000)	Lloydminster ($000)
1	Original Cost	15,644	1,853
2	Current Dollar Index[1]	NA	1.902
	Base Price	15,400	3,800
	Interim period capital costs	498	0
3	Gross Proceeds[2]	15,898	3,800
4	Cost of disposition	338	101
5	Petroleum rights	34	42
6	Storage inventory	NA	93
7	Price adjustment	2,700	40
8	Net Proceeds[3]	12,826	3,524
9	NBV (net of salvage)	7,466	867
10	NBV of retired production assets	872	NA
11	To Shareholders[4]	8,338	867
12	Available for Allocation[5]	4,488	2,657
13	Accumulated Depreciation	8,178	986
14	To Customers[6]	4,488	986
15	Remainder to be shared[7]	0	1,671
16	Share to Shareholders[8]	0	782
17	Share to Customers[9]	0	889
18	**Total to Customers**[10]	**4,488**	**1,875**
19	**Total to Shareholders**[11]	**8,372**	**1,784**

[1] Current Dollar Index (2) equals Original Cost (1) divided into Net Proceeds (8)
[2] Gross Proceeds (3) equals Base Price plus Interim period capital costs
[3] Net Proceeds (8) equals lines 3-4-5-6-7
[4] To Shareholders (11) equals lines 9+10
[5] Available for Allocation (12) equals lines 8-11
[6] To Customers (14) equals the lesser of lines 12 or 13
[7] Remainder to be shared (15) equals lines 12-14
[8] Share to Shareholders (16) equals (NBV x Current Dollar Index (2))-NBV
[9] Share to Customers (17) equals (Accumulated Depreciation (13) x Current Dollar Index (2))-line 13
[10] Total to Customers (18) equals lines 14+17
[11] Total to Shareholders (19) equals lines 5+6+11+16