

ALBERTA ENERGY AND UTILITIES BOARD

Calgary, Alberta

**ALTAGAS UTILITIES INC.
DISPOSITION OF GAS STORAGE
CONTRACTS**

**Decision 2002-022
Application No. 1256980
File No. 6401-8**

1 THE APPLICATION

By letter dated February 12, 2002, AltaGas Utilities Inc. (AltaGas) applied to the Alberta Energy and Utilities Board (the Board) for permission to assign the rights to certain gas storage contracts under section 26(2)(d) of the *Gas Utilities Act*, RSA 2000, thereby removing the use of these contracts from AltaGas' deferred gas account and gas cost recovery rate methodology.

2 BACKGROUND

The Board received a letter from AltaGas dated November 19, 2001 requesting the Board's direction on the disposition of existing, long-term gas storage contracts. AltaGas requested the Board provide direction regarding these contracts in light of section 4.2.2 of Decision 2001-75, dated October 31, 2001, wherein the Board stated that gas price hedging mechanisms (including physical gas storage) were not seen as necessary in the provision of regulated gas service. The Board considered these mechanisms unnecessary in that the *Natural Gas Price Protection Act* would provide adequate price protection to consumers taking regulated gas supply.

Other principles which were considered in Decision 2001-75, and which remained of concern to the Board were that:

- regulated and competitive gas offerings should be on a level playing field;
- regulated gas offerings should not require entrance/exit fees to ensure inter-customer fairness; and
- to the greatest extent possible, stranded costs should be mitigated or avoided.

In section 4.2.2 of Decision 2001-75, the Board dealt specifically with company-owned gas storage, and existing or pre-approved gas storage contracts for ATCO Gas and Pipelines Ltd. (ATCO). In the case of company-owned gas storage, the Board directed that the gas storage costs and benefits be treated as a rate rider on base distribution rates. ATCO gas storage contracts were permitted to continue until their expiry on March 31, 2002.

AltaGas informed the Board, in its letter of November 19, 2001, that it held gas storage contracts for use in its regulated gas portfolio that extended to March 31, 2003 and March 31, 2004. These contracts were not dealt with specifically in Decision 2001-75. AltaGas advised the Board that if the storage facilities were not utilized, the company would continue to incur demand charges for those facilities, creating stranded costs. AltaGas asked that the Board provide it with direction as

soon as possible so that it could act to mitigate these stranded costs by disposing of these contracts, if the Board considered that the storage facilities should not be utilized.

The Board issued a letter to interested parties dated November 29, 2001 outlining the issues noted above, and proposing two alternatives to address the disposition of these contracts in light of Decision 2001-75:

1. The contracts could be resold, or otherwise removed from utility operation, with the expectation that there would arise some stranded costs associated with such removal.
2. The costs and benefits of these contracts could be treated in the same manner as ATCO company-owned storage, whereby they would be allocated via a base distribution rate rider, for the duration of the existing contracts.

The Board received submissions from three customer groups, the Urban Municipalities (UM), the Energy Users Association of Alberta (EUAA), the Municipal and Gas Co-op Intervenors (MGCI); and EPCOR Energy Services (Alberta) Inc. (EESAI), a competitive retail service provider. With the exception of MGCI, parties believed that the proposed option of addressing these remaining contracts via a distribution rider was a preferable approach. MGCI proposed that the storage contracts should be resold, following a consultative process.

Subsequent to the receipt of these opinions from interveners, AltaGas provided additional information to parties, via a letter dated December 14, 2001. This letter indicated that AltaGas expected to be able to largely mitigate the cost of the remaining storage contracts by disposing of them, and that this option could be expected to be the least cost solution to this particular problem. Both the UM and the EUAA acknowledged their support for the AltaGas proposal, based on this new information.

On the basis that the AltaGas proposal was expected to address the concerns of the Board that undue stranded costs should not be incurred, and that a level playing field should exist between competitive and regulated rate offerings, the Board agreed with the proposal by AltaGas, that it should attempt to dispose of these gas storage contracts. Given that the Board expected there to be a level playing field for retail competition in the AltaGas service territory, the Board considered that the interests of EESAI would be served by this proposal. The Board requested that AltaGas advise the UM, EUAA, and MGCI of its progress in disposing of these gas supply contracts, and work cooperatively with these customer groups in the disposition process.

In its letter of February 12, 2002, AltaGas confirmed that it had reached an agreement with its customer representatives: the UM, the Consumers Coalition of Alberta, the EUAA, and the MGCI. This agreement provided that the gas storage contracts would be assigned to the AltaGas affiliate company AltaGas Services Inc. for the amount of \$144,000. This amount was considered sufficient to fully mitigate any potential stranded cost for disposition of the storage contracts, effective April 1, 2002.

3 BOARD FINDINGS

The Board notes that the customer representatives of AltaGas have worked cooperatively with the company regarding the disposition of these storage contracts, and have agreed to the proposed assignment of the storage contracts to AltaGas Services Inc. It also notes that there are no concerns that customers will have to pay for any stranded costs regarding these contracts.

The Board is of the view that the assignment of these contracts to AltaGas Services Inc. will provide a level rate regime between utility supply and retailer supply customers of AltaGas. Therefore, the Board is of the view that this proposal meets its criteria regarding the disposition of these gas storage contracts.

4 ORDER

Therefore the Board hereby orders that AltaGas Utilities Inc. proceed to assign the gas storage contracts noted in its letter of February 12, 2002 to AltaGas Services Inc. for the sum of \$144,000 and under the conditions noted.

Dated in Calgary, Alberta on February 28, 2002.

ALBERTA ENERGY AND UTILITIES BOARD

<original signed by>

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

<original signed by>

T. McGee
Member

<original signed by>

J. D. Dilay, P.Eng.
Member